GUIDES FOR THE
NEW HOUSING EXPORTER

GROWING OVERSEAS THROUGH LICENSING AND FRANCHISING

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Guide to Icons

The Tips and Warning icons are intended to draw your attention to special information.

Tip

Warning

Additional Sources of Support

This guide is intended as an introduction to international licensing and franchising. It focuses on the major issues and does not go into details. For that, we have identified additional sources of information and support.

To help you find the source best suited to your immediate needs, each source has been coded to indicate what it does. Please note that some sources of support require that you be a subscriber, and others are available only to residents of that Province or Territory. If a source does more than one thing, it has been coded accordingly.

This source will provide you with *printed* or *verbal* information.

This source will help you *find, understand,* or take an *action.*

If you qualify, this source may provide you with *financial* assistance.

This source can provide you with training in the form of *seminars* or *courses.*

This icon indicates a source of support with special emphasis on the housing industry.

Please note: the sources of assistance included in this publication reflect the situation at the time it was written. Some sources may no longer be available, others may have changed the services they offer, many more may be available on the Internet.

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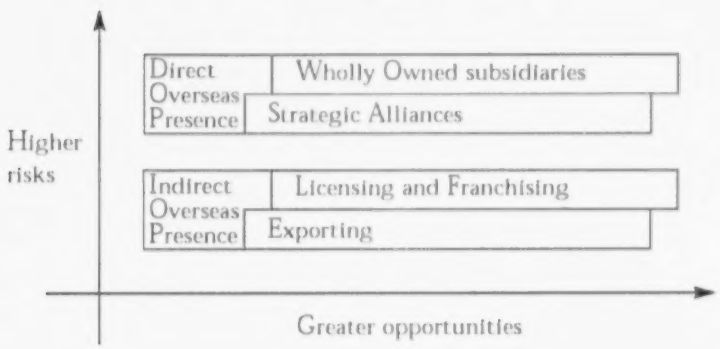
1. Doing Business Abroad

There are four basic steps to doing business abroad:

- Direct Exporting;
- Licensing and Franchising;
- Strategic Alliances, and
- Wholly Owned Subsidiaries.

The first two give the company an indirect overseas presence, the last two provide a direct, overseas presence. Each step requires increasingly higher levels of commitment, investment and risk than the previous one. Each step may, however, also offer a higher profit potential.

The four basic steps



Exporting

Exporting, which was the focus of the guide "Are You Ready to Export?", is the simplest way of achieving an overseas presence. Direct exporting involves an effort on the part of the prospective exporter to identify potential clients, agents or distributors in a specific foreign target market. Direct exporting is not to be confused with selling locally to a client or agent who takes the merchandise to a foreign market. Because it does not require a permanent presence in the export market, direct exporting involves less commitment, investment and risk than the next steps. Direct exporting is generally viewed as the best way to begin doing business abroad.

Licensing and Franchising

The second step in doing business abroad, which is the focus of this guide, involves setting up a permanent, but still indirect presence overseas through licensing and franchising.

Licensing generally involves granting to someone the right to produce, use and/or sell, in a specific geographical market, a product, service or technology that you have developed. As a rule, the licensee is also entitled to use your brand name.

Franchising involves granting the use of a complete business concept. The franchisor gives the franchisee the right to operate in a specified territory a carbon copy of the franchisor's successful business, under the same name and procedures. In addition, the franchisor provides the franchisee with a continuous stream of advice, products and services vital to the success and profitability of the franchise.

Although it requires more investments, more time and more commitment than direct exporting, a permanent overseas presence through licensees and franchisees may allow a company with the right products, services, technology or business concept to expand internationally fairly rapidly, with a relatively low commitment of resources and personnel.

Strategic Alliances and Wholly Owned Subsidiaries

Some businesses do not lend themselves to licensing and franchising. For these, overseas expansion generally involves taking a partner in the foreign country and/or creating a joint venture or a consortium.

Strategic alliances such as strategic cooperation agreements, consortia, joint ventures, international partnerships, as well as wholly owned subsidiaries, which are the focus of the next guide, become attractive when the level of business is such that you must have a direct permanent, presence in the market.

While a consortium is generally set up for a limited time period by groups of companies who are interested in joining forces to go after specific overseas building or development projects, partnerships and joint ventures are more long term.

Consortia, joint ventures and partnerships may require more investments and create more opportunities than lower levels of involvement. They are however considered riskier.

There are cases where the product being offered, or the foreign market opportunities, justify the creation of a wholly owned subsidiary. Subsidiaries have the highest level of potential profitability, but they are difficult to set up and to run, and require the highest level of investment and commitment on the part of the investor. As such, they are ranked as carrying the highest risk.

2. Intellectual Property, the Key to Licensing and Franchising

The whole idea behind licensing and franchising is that you can profit from your intellectual property by renting it to others. Intellectual property is the jargon used to describe all the things that you have invented, developed or created and over which you have ownership or control. Intellectual property comes in several forms:

- Patents: for new technologies, building materials, equipment and processes.
- Trademarks: to protect a word, symbol, picture, or combination thereof, used to distinguish a company's goods and services from that of others.
- Copyrights: for literary, artistic and musical work or computer software.
- Industrial design: for shapes, patterns or ornamentation applied to industrially produced objects.
- Trade secrets: for "know-how" associated with the way certain things are done, for example, stone cutting, etc.

In this section, we will review the basics of each type of intellectual property, because this knowledge is absolutely necessary to understand the rest of the material in this guide.

Patents

First, to be patentable your invention must be new in Canada and in the world. Second, it must work, i.e. have utility and be susceptible to industrial application. The patent document itself must clearly demonstrate how the invention works, and your invention should achieve at least what is said in the patent document. Third, your invention cannot be something obvious to somebody skilled in that area. It can, however, be an improvement over something that already exists.

You can only get a patent for something that is tangible, i.e. it must have certain physical characteristics. A piece of equipment and a process can both be patented, but not a scientific principle such as the laws of gravity or relativity. Also, it is not possible to patent methods of doing business, e.g.: door-to-door selling, a business plan, or something which is illegal or immoral. What is considered to be immoral or illegal will vary from country to country.

If your product, tool, machine, process, method or new formulation meet the three basic criteria for patentability (novelty, utility and ingenuity), it can be patented.

Advantages and disadvantages of patents

A patent gives you the exclusive right to prevent others from making, using or selling what you have patented. In Canada, a patent is valid for up to 20 years from the filing date of the patent application. Once you hold a patent on an invention, you can dispose of it as any other business asset, i.e. use it, sell it or license it. It can even be used as a collateral in a financial transaction. A patent is especially useful to create a barrier to entry for would-be competitors. Patenting is especially useful to protect the uniqueness of the products and processes which may be the core components of your franchise.

There is however a significant downside to patenting: you must provide a full description of the invention you want to patent and this description becomes public usually 18 months after filing the patent application. This can be of concern because it alerts the whole world about your invention, and gives a detailed description of how it works.

Patenting can therefore increase, rather than control competition, with honest competitors trying to "work around" the patents, and dishonest ones betting that you will not have the resources to sue them if they decide to go ahead and copy your invention without your consent. In Canada, as in most countries, a patent is given to the applicant who first files an application. One notable exception is the United States, where a patent will be issued to the applicant who first created the invention.

Having a patent in Canada does not protect your invention in other countries. Dishonest competitors can be a real concern in certain countries because of lax intellectual property laws that prevent patent owners from enforcing their rights (certain laws actually protect copycats from prosecution by foreigners). It is therefore imperative that you find out about the validity of patents in the host country before seeking patent protection in it. You may apply for a foreign patent through the Canadian Intellectual Property Office, in Canada, or directly in the country where you plan to operate. Be aware that in most countries, outside of Canada and the United States, you lose the right to a patent if the invention is disclosed before you have filed the patent application.

In light of the considerations above, many businesses feel that they are better off protecting their discoveries through trade secrets than through patents, provided the information can be kept as a corporate trade secret over a long period of time.

How to register a patent

As soon as your invention is completed, you should file for a patent with the Patent Office in Hull, Quebec. Obtaining a patent is a lengthy process and it will take 18 months from the filing date for your application to be published, if everything is in order. There are many steps involved in preparing and following through a patent application. Because the process is complex, it is highly recommended to retain a registered patent agent. A list of registered patent agents is kept in the Patent Office.

Trademarks®

In all likelihood, the business that you want to franchise has a well-known and respected name, as well as some key products or services. In addition, it probably has a distinctive company symbol (the company "Logo"), although probably not as famous as McDonald's "Golden Arches". Your product may also be easily recognized because of its distinctive packaging.

All these characteristics make your business unique, and are generally an important component of your success formula. You should seek to protect your distinctive trademarks from being used without your authorization. Trademark protection is the keystone of your entire franchising operation.

The best way to achieve this is by registering these characteristics as trademarks. A registered trademark can be used to protect a word, symbol, slogan, shape, package or name associated with a product or a service. A registered trademark can be identified by the symbol ®, but this is not a requirement. Such marking can, however, act as an efficient deterrent against infringement of your rights.

Advantages of registering a trademark

Registering the company name, the name of its products, its logo and company slogan (e.g., "quality with a smile", "satisfaction guaranteed or your money back", etc.), guarantees the ownership of what has been trademarked, from the date of registration up to 15 years thereafter in Canada.

The main advantage of registering a trademark is that, provided you use it consistently, it offers you protection against someone else using the same or a similar trademark. The use of a similar trademark by someone else would cause confusion in the minds of customers and the fact that you have registered it, gives you the right to sue anyone that uses your trademark without your consent. Trademark protection can be renewed indefinitely.

How to register a trademark

In Canada, all trademarks must be registered with the Canadian Intellectual Property Office in Hull, Quebec. The complete registration process can be quite lengthy, but should not exceed two years, provided there are no problems during the prosecution process. Some degree of protection begins with the filing of the trademark application for registration.

Because of the importance of intellectual property rights, the franchising agreement should have a complete section dealing with trademarks (see the chapter on developing a franchise agreement).

Just like patents, trademarks have to be registered in each country where you want to secure trademark protection.

Copyrights ©

As a builder, component manufacturer or design professional, you are unlikely to be involved in writing books, poems, or musical scores. You may, however, write an instructions booklet, technical specifications manual, sketches and construction blueprints, produce a product catalogue, devise a catchy jingle, or even develop some computer software. All of these can be protected through copyright, which is identified by the © symbol.

Advantages of copyrights

As in trademarks, the purpose of copyrighting is to protect your intellectual property, declare it off-limits to the competition, and enhance the uniqueness (and therefore value) of your franchise package.

As a general rule, as soon as you create an original work, you are immediately entitled to copyright protection, without the need for a formal registration. This copyright protection extends to Canada and most other industrialized countries with which Canada has reciprocal agreements (you should however verify whether each country in which you intend to establish your franchise is a party to these agreements).

Registering your copyright with the Canadian Intellectual Property Office (CIPO) has one significant advantage. If there is a legal dispute, your certificate can be used as evidence that you own the work and prove the date at which the work was created. Unfortunately, because CIPO does not examine your copyright application to ensure the originality of your work, it is not a guarantee that it will not be contested. Furthermore, it is your responsibility, not the Office's, to protect your copyright by taking legal action against those who might infringe on them – a costly proposal for a small company, but again, this may be useful to create another barrier to entry for would-be competitors.

How to register a copyright

To register a copyright, you must complete the appropriate application forms and pay the related fees (less than $100 in Canada). The forms are available from CIPO, in Hull, Quebec.

Industrial Designs

You may just have created a unique product with a distinctive design (e.g., a door handle, a staircase, a floor pattern, a hand-held tool, etc.), in the sense that nobody else has a product with that look. Before you start marketing it, you may want to protect that unique look, so nobody can copy it without your authorization.

Once your design is registered, you do not have to give it a special marking, but you may avoid problems by using a capital "D" within a circle, followed by the name of the design's owner on the product, or at least on all pictures, drawings and other marketing material referring to the product.

Remember that industrial design protection covers shapes, patterns, and other elements of "visual appeal". It should not be confused with a patent, which is intended to protect the use and functionality of an object or the process by which it is manufactured. For example, you could register the design for a door handle, but the protection would not extend to the handle's manufacturing process.

Advantages of registering an Industrial Design

Registering your design with the Canadian Intellectual Property Office gives you exclusive rights to that design. It guarantees that, for a period of up to 10 years, nobody else can use your design without your agreement. Here too, you are responsible for legally enforcing your industrial design rights.

As the owner of that industrial design right, you have exclusive rights in Canada to make, use, sell or rent a product with your design, or license others to do the same. As for any of the intellectual property rights discussed previously, you may also sell (assign) all or some of your rights to others.

Registering with CIPO will only protect your design in Canada. To have the same right in other countries, you must seek protection in each country separately.

How to register an Industrial Design

You can file your industrial design registration with CIPO. Usually it takes between 6 and 12 months to have your application examined. If more than one person has applied to register the same design within this period, the one with the earlier filing date will be the one who will obtain the industrial design registration.

Trade Secrets

The term "trade secret" may include confidential recipes, business plans, financial data, documents, operational manuals, and promotional strategies and techniques. To qualify as a trade secret, the intellectual property must have some commercial value, not be readily known or available to others outside the business, and must be protected by a program aimed at ensuring confidentiality. Know-how does not, therefore, necessarily qualify as a trade secret.

The formula for the Coca Cola® drink is an excellent example of a trade secret. The formula is not patented (because having it patented would have required releasing the drink's formula), but it has been kept a secret for almost 100 years. On the same line of thought, it should be noted that both the name Coca Cola and the distinct shape of the bottle have been registered as trademarks, and that the name alone is valued at more than 30 billion U.S. dollars.

You can sue somebody for stealing, misusing or illegally disclosing a trade secret, but only if you can prove that you have taken all reasonable precautions to protect it.

In addition to establishing an internal process and policy to systematically protect your trade secrets, you should also ensure that employment agreements with key employees have adequate trade secret provisions to prevent unauthorized disclosures upon the employees leaving (to work for a competitor!).

Trade secrets are an important issue for franchisors. Since a franchise is a recipe for success, you must teach your franchisees those trade secrets which are part of the success formula. The problem lies in how to protect those key trade secrets from leaking out, especially when a franchisee leaves. This important issue is usually dealt with by including a specific section dealing with the protection of the franchisor's trade secrets into the franchise agreement (see chapter on developing the franchise agreement).

3. What is Licensing?

A license is a contract by which a person or a company who owns a patent, a trademark, a copyright, an industrial design, or for that matter any type of intellectual property, rents part of those rights to another person or company.

In this section, we review the definition of licensing. Later on, we will see what it takes for a product, process or another form of intellectual property to be suitable for licensing, how to develop a licensing agreement and how to go about selling licenses overseas.

A license may involve the right to manufacture, sell and/or use a form of intellectual property, but not necessarily all of them. For example, the inventor of a new patented laminated parquet flooring material licenses a large company to produce this product. The license agreement specifies, however, that all the production must be turned over to the licensor, at an agreed price, and that the licensor retains sole ownership of all distribution rights of this product worldwide.

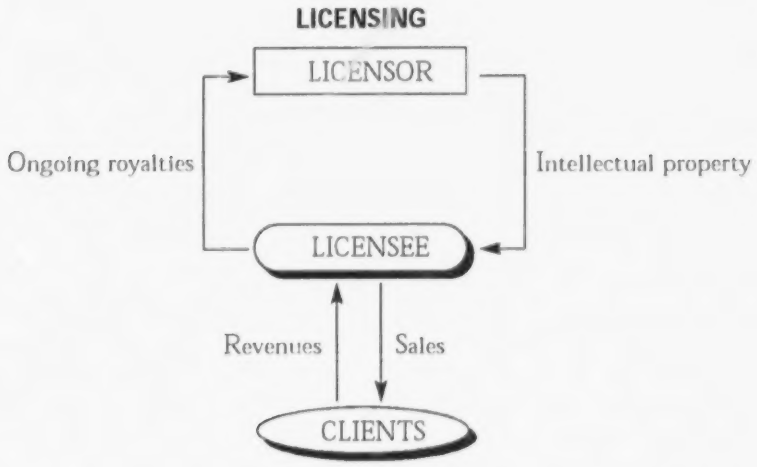
Corian® distributors are licensed to use and sell this patented 3M® countertop material, and to use the Corian® trademark in their advertising, but they are not allowed to manufacture it.

How Licensing Works

Whether it is a patent, a trademark or an industrial design, one can sell one's rights, or license (in fact, rent) them out. For example, if you invented and patented an efficient decorative brick laying machine, you could probably sell the patent outright for quite a lot of money, or negotiate a license covering the North American market. In this case you would collect royalties from the North American licensee and still retain the basic ownership of the patent, which you could license again, to somebody else, in Europe and overseas.

What the licensor gives the licensee obviously depends on what is being negotiated. If the license involves the right to manufacture a complex product, the licensor's contribution may be substantial, including drawings, tools, training and even machinery. On the other hand, if the license involves the right to put a logo on a T-shirt or to use a trademark, the transaction is likely to be much simpler.

The same holds true for the licensee. If the license is a complex one, the licensee may have to pay a substantial initial contribution. Otherwise, the license will probably involve simple royalties on a number of units produced or on the licensee's revenues.



In some cases, in addition to the above, the license also involves an up-front entry fee and ongoing support services paid through service fees.

Ongoing support

Under normal circumstances, ongoing support may involve the training of new employees who will have to deal with the licensed material. It may also involve technical assistance, as well as the implementation of improvements and innovations developed by the licensor. These services are usually optional and are provided at the licensee's request, for a fee.

Benefits of licensing

Let us say that you have developed a new type of insulation with important cost and performance advantages. Because of shipping costs in relation to weight and value, it may not be feasible to ship your product over great distances, and you may not have the resources to set up new plants in every major market. The solution is licensing.

Licensing is even more desirable when the cost of developing new products is high and competitors are aggressive. By being first in the market, you are likely to be able to charge a premium price. By being first in many markets through licensing, you can increase your advantage even more. By the time competitors bring their own product out, you may have recovered your R&D investment, and made a profit. In other words, licensing is a way of leveraging the value of your intellectual property, increase sales, improve return on investment and reduce risks.

Some licensors go even further, they license their product to a company located in a low production cost area (e.g. China) and become themselves the importers and distributors of the product in their home market.

4. What is Franchising?

Housing markets tend to go up and down. For a few years everything goes well, then the local economy hits a bump and builders are forced to cut back, often to fold. One way to survive is to expand into several markets so that there is always a booming one while others are in crisis.

The problem with expanding is that you need resources which are in very short supply in the housing industry, such as money and people, and it involves risks which small companies are reluctant to face.

The question therefore is: is there a way to expand overseas with limited resources in people and money, without incurring too many risks? The answer is a qualified yes! If you have a business which is suitable for franchising and ready for overseas expansion, it is possible.

The graphic below sets out how franchising works: a franchisor provides franchisees with a complete business package known as "the success formula", as well as ongoing support. On par, each franchisee pays the franchisor an entry fee and ongoing royalties.

Franchising

In the next section, where each element of the franchising system will be studied in detail, we will see what it takes for a business to be suitable for international franchising.

In later chapters we will learn:

- how franchising could help you,
- whether your business is suitable for franchising and ready for international expansion,
- how to replicate your present business far and wide, and
- how to increase profits very substantially with relatively limited resources at the start.

How Franchising Works

As the franchisor, your role is to provide the franchisee everything needed to build and run, successfully, a replica of your "success formula". This usually includes helping the franchisee select a location, build or lease an appropriate facility, outfit the premises, select, purchase and install the necessary equipment, as well as the rights to manufacture, advertise and sell some products or services at a profit. In addition to this "initial contribution" you will also have to provide franchisees with ongoing support, year after year, to help them evolve, improve, innovate, face the competition, and continue to be successful and profitable. In exchange, each franchisee will invest the money necessary to open and operate the franchise, faithfully follow your success formula and provide you with royalties on sales, as well as a variety of fees for ongoing services.

Over the next several pages, we will review in detail each of the elements of the franchising mechanism: recipe for success, ongoing services, royalties and fees, and analyze the advantages of the franchising approach for overseas expansion.

The recipe for success

In franchising terms, "recipe for success" means a unique business comprised of a proven combination of products, services and intellectual property rights. What makes the business unique is that, although each component may not be unique, the combination is unique.

As a franchisor, you are supposed to have developed, and own, a proven formula for success to which franchisees are given exclusive rights within a given territory.

The question is: how do you prove that you own an international "success formula"?

From a practical point of view, you start by determining if your business is suitable for franchising and ready for international expansion (this is covered in the next chapter). Then, you have to prove that it works and is profitable. This is generally done by setting up a pilot franchise.

A pilot franchise is a full-fledged operation which is owned by the franchisor for a period long enough to prove that it works.

Once you have proven that the pilot works, you have what is commonly called a "success formula" or a "recipe for success". You are now ready for expansion. Remember however that success in Canada is no guarantee of success elsewhere.

Other initial contributions

As a rule, your initial contribution will include considerable help in setting up the franchise operation. This may involve help in finding an appropriate location (especially if the franchise involves a retail component). It will also include help in the acquisition and layout

of the machinery, as well as the training of all the staff, from the work floor to the supervisors and managers. In addition to training in operating procedures, there should be training in management and related issues such as marketing, sales, advertising and after-sales servicing.

Well established franchises can achieve excellent results with franchisees who are not experts in the business and who may not even be experienced business persons, because they are provided with all the necessary training, business advice and operating assistance. This may include assistance in negotiating building and equipment leases, assistance in obtaining a start-up loan, even access to trustworthy and knowledgeable lawyers, accountants, consultants and advertising agencies.

As a new inexperienced franchisor, you should try to select people who have plenty of local experience in your line of business as franchisees. Knowledgeable franchisees require far less training and support, they will also reduce your start-up costs considerably. They know the local scene and will help you adapt your franchise to local conditions.

Ongoing support

Ongoing support usually provides the franchisee with the products necessary to operate the franchise, business advice, technical support, advertising support, ongoing training and all other forms of support necessary to reach and sustain a successful franchise operation. These other forms of support include, among others: market research, sales forecasts, production volume decisions, help in purchasing, financial controls and performance monitoring.

By following the instructions of the franchisor, and applying faithfully the success formula, any motivated franchisee should be able to run a reasonably effective franchise.

By recruiting motivated franchisees who are willing to learn and faithfully apply the "recipe for success", the franchisor solves the problem of lack of human resources. We will see below how the two other problems, lack of money for expansion and risk, are also greatly alleviated.

Initial entry fees

In exchange for the success formula, the exclusive rights over a certain territory, and assistance in setting up the franchise, the franchisee pays an "entry fee".

In the beginning of a franchise expansion, the initial costs incurred by the franchisor are likely to be higher than the entry fee paid by the new franchisee. The purpose of the entry fee is, however, essentially to cover all the initial costs incurred by the franchisor in helping establish the new franchisee, as well as a contribution towards the capital investment in developing the franchise and a recognition of the goodwill value (in other words, the profit potential) of the franchise.

Some start-up franchises have entry fees of a few thousand dollars only, while very successful franchises have initial entry fees in the million dollar plus range.

Entry fees can help solve the problem of funding overseas expansion, since each new franchise (after the first few ones) generates a positive cash-flow from the very beginning. In contrast, most other forms of overseas expansion require sizable up-front long-term investments.

Royalties, contributions, profits and fees

It is the franchisee, not the franchisor who owns the facilities, machinery and inventories required to operate the franchise. It is also the franchisee who assumes the responsibility for payroll and other expenses. The actual risks faced by the franchisor are very small, excluding the fact that if the franchisee fails, it affects the value of subsequent franchises.

In addition to assuming all the risks, the franchisee also generates ongoing revenues for the franchisor: royalties on sales and on the use of patents, trademarks, etc.; profits on exclusive supplies provided by the franchisor to the franchisees; contributions to advertising and promotional activities; fees for the training and consulting services provided by the franchisor to the franchisee.

By generating a substantial stream of steady revenues on the efforts and investments of its franchisees, a well run franchise can produces excellent rates of return on the franchisor's own investments.

Be careful with exclusive supplies. In many countries, you cannot force a franchisee to purchase from you at a higher price something that is available at a cheaper price from another source. In practice, in those countries, franchisors are limited to selling products for which they hold a patent, and products for which the technical specifications (determined by the franchisor) are so special that no one else is offering them.

Make sure your franchisees succeed!

Some franchisors fail to understand that, in the long run, their success depends on the success of their franchisees. They view their franchisees as a captive market and try to literally milk them dry through unreasonable fees, royalties, mandatory contributions to advertising programs and grossly inflated prices for the supplies they provide to the franchisees. These franchises tend to collapse fairly rapidly. In addition, many courts are heeding the franchisee's complaints and voiding franchise agreements where there is no reasonable relationship between value of service being provided and ongoing payment obligations.

A well run franchise has no need for predatory practices to be very profitable. You should always make sure that your franchisees are well rewarded for their efforts and that they receive an appropriate return on their investments.

Other benefits of franchising

The major benefits of franchising are essentially the same as those of licensing: to derive maximum benefits from your intellectual property.

Let us take the example of the new type of insulation, already mentioned in the licensing section, one step further. Besides inventing and patenting the insulation material, you have developed:

- a complete business concept which includes a well-known registered trademark;
- a unique marketing strategy and an application procedure that qualify as a trade secret;
- a new distinctive package with a registered industrial design; and
- a complete advertising package with copyrighted material and trademarked slogans.

Obviously, all this cost you a considerable amount of money and effort. By franchising your intellectual property as a package, you are in a position of deriving revenues from the fees and royalties paid by the franchisees and therefore recover your initial investment. In fact, you should end up making a handsome profit.

Having several franchisees operating under the same trademark and selling the same product in the same packages, has the additional advantage of allowing you to purchase supplies in larger quantities and get lower per unit costs. This is especially true in advertising. Placing an ad in a national magazine costs the same whether you have one franchisee or many. With many franchises you can have more advertising at a lower cost per franchise.

In addition to economies of scale, the greatest advantage of franchising is that it allows you to get maximum returns from short life-cycle products.

As in the case of licensing, franchising allows you to enter new markets faster, spread the cost of developing new products over larger numbers of units and recover your investment earlier (before competitors enter the market). In other words, franchising is a way of increasing sales, improving return on investment and reducing risks on a complete business concept, not only on a discreet unit of intellectual property.

5. International Licensing and Franchising Guidelines

By now, you are familiar with the major categories of intellectual properties and with the definitions of licensing and franchising. But you still do not have an answer to the big question: what makes a product or a business suitable for international licensing or franchising? In this chapter, we will zero-in on exactly this issue.

Because most franchises incorporate one or more licenses, it is difficult to treat licensing and franchising as two completely different subjects. Licensing and franchising are dealt with separately when there are significant differences and together when the issues are similar.

In the next chapter, you will have an opportunity to use this knowledge to check whether you, your intellectual property, your business and your company, are suitable and ready for a successful international expansion through licensing and franchising.

Suitability and Readiness

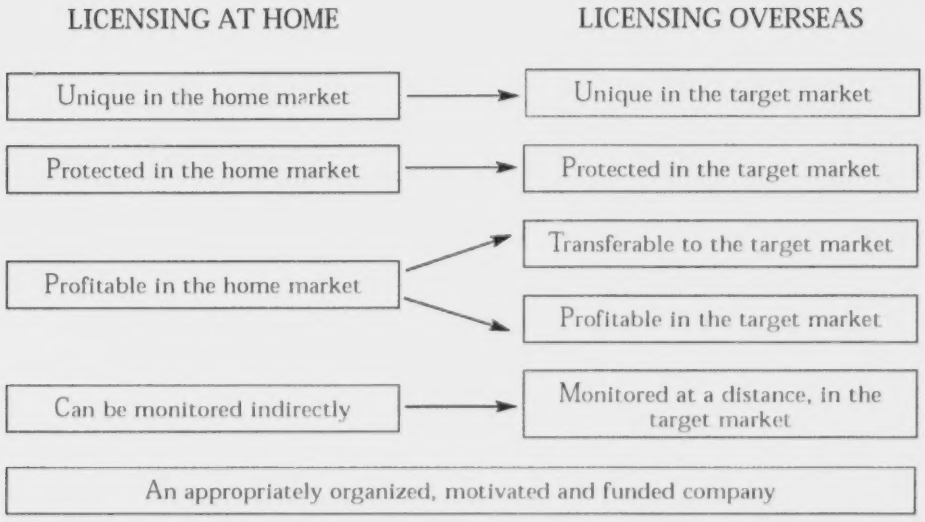
There are two aspects to being fit for international licensing or franchising. First, your intellectual property, or your business must be such that it can be licensed or franchised. As you will soon see, not all products, services or businesses are suitable.

Second, just because your intellectual property or business is suitable for licensing or franchising, it does not mean that it is ready to be licensed or franchised overseas, and more importantly, in the specific international markets where you want to go first.

Licensing at Home and Abroad – Introduction

In order for a patent, a trademark or any other type of intellectual property to be suitable for licensing at home and ready for licensing overseas, it must have certain key characteristics such as the ones listed in the following graphic *Licensing at Home and Abroad*. Shaded areas indicate items which are similar for licensing and franchising.

Licensing at Home and Abroad


LICENSING AT HOME
LICENSING OVERSEAS
Unique in the home market
Unique in the target market
Protected in the home market
Protected in the target market
Profitable in the home market
Transferable to the target market
Profitable in the target market
Can be monitored indirectly
Monitored at a distance, in the target market
An appropriately organized, motivated and funded company

You have just developed a new multipurpose power nailer which can be used for roughing, drywall, roofing and finishing. You go to a patent agent who informs you that your device was first patented in 1931. Tough luck! You cannot claim any form of intellectual property and therefore, you will not be able to license your device.

Rule number one, to be suitable for licensing, something must be unique and protected by some form of intellectual property registration. It does not matter if it is a patent, trademark, industrial design, etc. The important point is that it be protected from use by the competition.

Just because something is suitable for licensing, it does not follow that it is ready for international licensing. For example, your intellectual property protection may not extend to other countries, or it may be a product which cannot be produced overseas. For example, could you sell a license for an improved maple sap collector in countries with no maple trees? From a practical point of view to be suitable for licensing, your intellectual property has to be able to generate a profit.

To be licensed, it must be unique

Uniqueness is what gives a product, service, or any other form of intellectual property its value, and makes it suitable for licensing.

An invention which can be patented because it is something new and unique (the telephone, electricity, etc.) can also be licensed. A unique computer program can be copyrighted and therefore licensed. Unique slogans, names of products, distinguishing packages, etc. can be registered as trademarks, which can, in turn be licensed.

Remember, however, that just because your product is new, unique, and suitable for licensing, it does not mean that people will actually want to buy a license from you.

Profitability, the key to licensing

The person most likely to buy a license is somebody who is already in the business, is knowledgeable and experienced, and quite capable of assessing the risks involved. The major decision criteria is therefore going to be profitability. For a foreign licensee, the key questions are going to be:

- Will this reduce my costs?
- Will this allow me to increase my prices?
- Will my competitors, who do not have access to this license, be able to match it?

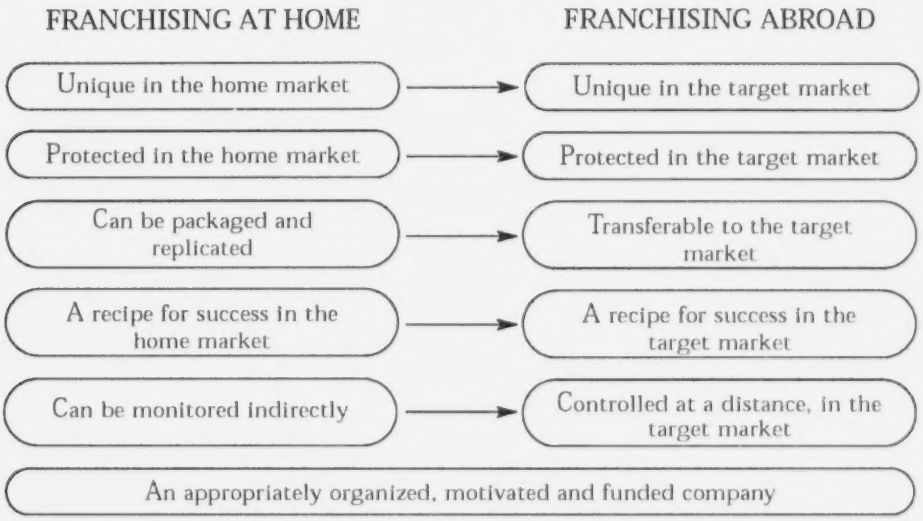
Monitoring your licensees

For a license agreement to work, there has to be some way to make sure that the terms of the license agreement are being respected. This issue which is common to licensing and franchising is discussed in detail further in this chapter.

Franchising at Home and Abroad – Introduction

In order for a business to be suitable for franchising at home and overseas, it must have certain key characteristics such as the ones listed in the following graphic *Franchising at Home and Abroad*. Shaded areas indicate items which are similar for licensing and franchising.

Franchising at Home and Abroad


FRANCHISING AT HOME
FRANCHISING ABROAD
Unique in the home market
Unique in the target market
Protected in the home market
Protected in the target market
Can be packaged and replicated
Transferable to the target market
A recipe for success in the home market
A recipe for success in the target market
Can be monitored indirectly
Controlled at a distance, in the target market
An appropriately organized, motivated and funded company

Because most franchising packages usually incorporate one or more licenses, all the guidelines applicable to licensing also apply to franchising. The major difference is that franchising involves a full business concept package comprised of several components (product, licenses, trademarks, copyrights, trade secrets, etc.) and as such it is much more complex and requires additional guidelines, each of which is covered in considerable detail later in this chapter.

Suffice it to say that for a business concept to be suitable for franchising and ready for overseas expansion, it must be relatively unique, well protected, suitable for packaging and replication, as well as relatively low risk and competitive.

To be franchised, it must be a unique package

A business is suitable for franchising when it comprises a package of things which make it unique. The typical franchisable business will therefore include a combination of such things as:

- A product or service, which is unique, and suitable for licensing, or
- A product or service, which in itself is not unique, but which is provided in its own unique way. For example: film developed while-you-wait, pizza delivered in less than 30 minutes, etc.
- A unique combination of brand name, logo, slogan, packaging and possibly a trade secret. Typically, this is how fast-food franchises differentiate themselves from the competition. It is important to understand that not all components of the package have

to be distinct. For example, paint is hardly a unique product, but companies such as Color your World® have successfully built their uniqueness around their trademark, logo, marketing, product range, etc.

- Some unique component provided by the franchisor to the franchisee. For example:
  - Architectural services – the franchisor receives two dimensional plans and drawings from franchisees and, using a proprietary computer system, provides franchisees with a 3D rendering of the project.
  - In the same way, a tax-return preparation franchisee may fill out a form with the client's information and let the franchisor's computer do the calculation, form printing, and even the electronic filing.

The more areas of uniqueness, the better. If your business is based on a unique patented product with lots of trade secrets, a registered brand name, logo, slogan, package, a unique way of doing things, and if you supply a key ingredient to the franchisee, you probably have a business highly suitable for franchising.

From an international franchising point of view, uniqueness can be a bit more complicated. What is common in Canada may be quite unique in overseas markets and could conceivably be franchisable there. On the other hand, something can be so foreign that, although it is unique, there may be no demand for it overseas.

If it cannot be protected, it cannot be licensed or franchised

It is unfortunately not enough for your product, service or business concept to be unique. Uniqueness is of little value if it cannot be protected. There are several avenues to protecting the uniqueness of your license or franchise: patents, copyrights, trademarks, industrial design protection, and trade secrets.

Protection in the home country is not enough. For a successful international licensing or franchising expansion you need protection in the countries you want to expand to. Overseas protection hinges on two elements: first, do the country's laws and courts offer reasonable protection? Second, but in practice far more important, is the local business culture one in which contracts, patents and trademarks are respected?

China is notorious for offering little or no real protection to foreign licensees, and many other countries have, at best, a mixed record.

Don't be over impressed by the laws on the books. Some countries have impressive sounding legislation for the protection of intellectual property, but in practice the courts will not enforce them, or court procedures and costs will systematically and unfairly favor the local party over the foreign one.

It can only be franchised if it can be packaged and replicated

We all know an old stone mason or fine carpenter who is incredibly gifted and able to do things that nobody else can do. Although they are indeed unique, their skills may not be suitable for licensing, or franchising. In order to have something that can be franchised, the total bundle of knowledge included in the franchise must be suitable for "packaging". In other words, it can only be franchised if it can be taught, and exactly replicated by any normal individual, without the need to have a special "gift".

You can franchise carpet laying, furnace installation, house painting, project management, even tax return preparation, but you cannot franchise architectural design, composing music and all those things that require a special talent or ability.

Some things can be packaged, but not replicated in a different country because their very existence is tied to some special local situation. For example, "do-it-yourself" wine and beer making would not work in most countries in the world. Excluding strict Muslim countries, where it would be plainly illegal, such a business can only exist in places where taxes on wine and beer are very high and where they do not apply on home-made or "do-it-yourself" made, wine and beer.

To be ready for overseas expansion, a franchise package must therefore be suitable for replication overseas (at least in your target markets), even though cultural, geographical, economical and political conditions differ from the home market.

Profitability and low risk, the keys to franchising

Let us be clear about it, when somebody buys a franchise, what that person is buying is a way to make money, a "recipe for success".

The most likely prospective franchisee is often somebody with little or no experience in your line of business, and often enough, no business experience at all.

These people buy franchises because they want to be in business "for themselves" but not necessarily "by themselves". They believe, and rightly so, that a franchisor which has a proven track record will greatly increase their own chances of success.

Businesses suitable for franchising tend to be those who offer products or service for which there is a clear, steady demand, in a way which is competitive, profitable, and with only limited risks.

Businesses which are ready for international franchising expansion offer the same advantages in the foreign target market.

The best, if not the only way to show that your business is suitable for franchising, is to operate it as a franchise (the "pilot") for a reasonable period of time, and to show the results to prospective franchisees.

Can You be Sure You Will Get Your Fair Share?

If you have to be there in person to make sure that things are being done properly, and to ensure that you are receiving your fair share, it cannot be licensed or franchised.

Management at a distance is normally handled through a set of written management procedures. If your business is so diverse or unpredictable that it does not lend itself to written procedures, it probably cannot be franchised. Making sure that you get all the fees and royalties you are entitled to, without being on site, is a big issue with licensors and franchisors.

No license or franchise can exist for long without a good set of "remote" controls. For example, fast food franchisors control their franchisees by keeping track (among other items) of the number of paper cups and wrappers being used: so many hamburgers wrappers, so many small, medium and large cups, etc.

When dealing with product licenses, an easy way to control at a distance is to install tamper proof meters at key points in the production line. Another control system is to carry out random audits. One interesting way is to create an incentive (such as a warranty, a discount or a gift offered by the franchisor) which will motivate the customer to inform the franchisor of the purchase.

Some licensors and franchisors keep control by being the sole suppliers of a critical part of the product which cannot be obtained from any other source. For example, a license to manufacture windows may be tied to the requirement that the windows use a special, patented, crank mechanism for which the licensor is the sole supplier.

One should be careful not to confuse a control mechanism with a means to extract exaggerated additional profits from the franchisees. In other words, you cannot sell the crank mechanism at an unreasonable price. In many countries, and especially in the U.S., this could lead to serious legal problems.

From an international point of view, managing and controlling at a distance remains a key issue. Things just get more complicated because one is required to operate in a foreign legal, cultural, business and physical environments.

Designing effective means of controlling your licensees or franchisees will likely determine whether, at the end of the day, your licensing or franchising efforts will be profitable.

The Whole Company Must be Ready

The difference between success at home and abroad is often a matter of one's ability to operate effectively over great distances, in different environments and to deal with different sets of risks. There are however some characteristics which are specific to overseas licensing and franchising.

First, as in any other overseas expansion, it is best to expand from a solid home base. But sometimes, as in the following case, there is a twist. Let us assume that you have developed a new method for erecting basic, low-cost precast housing units. There may be no market at all in Canada for that type of housing. You may however establish a pilot in a developing country and use that as the basis of your expansion into other developing countries. In other words, you need a solid base, but not necessarily a solid "home" base.

Second, most small business principals may have "management" and even "industry" or "product" skills, but they rarely have licensing or franchising skills, and even less international franchising skills.

The international franchising expansion will require adding new skills to the management team. It is not necessary for the franchisor to have expert staff in all the relevant areas. Using outside licensing and franchising expertise is usually more effective. It is, however, imperative that the entire management team become not only familiar, but knowledgeable about franchising in general, and overseas franchising in particular.

In addition, as in all cases of overseas expansion, success will eventually depend on the appropriate motivation, sufficient commitment and company staying power.

Conclusion: Are You Ready and Able?

This concludes our review of the licensing and franchising guidelines. By now, you have learned about the various aspects of intellectual property, you are familiar with licensing and franchising, and you know what it takes to be suitable, and ready to expand overseas through licensing and franchising.

In the next chapter, you will be given an opportunity to use all this newly acquired knowledge to assess your own products, services and company in order to determine whether you are ready to expand overseas through licensing or franchising.

6. What is Your Rating?

Before you launch into the exciting but risky adventure of overseas expansion through franchising, you owe it to yourself to determine whether your business is suitable for overseas franchising, and if your company is ready to undertake such a challenge.

If you own a patent, a trademark, a copyright, or any other intellectual property, you must be aware by now that you can license it at home, and most probably overseas as well. If you are only interested in licensing, you can skip this chapter entirely. This chapter is fully focused on your international franchising rating.

Throughout this chapter, you will be asked to answer a number of self-assessment questions about various aspects of your business. At the end of each section you will be given a rating, and an explanation of its meaning.

The overall rating, which is determined at the end of the chapter, will help you assess your suitability and readiness to begin franchising overseas. It will also provide you with a tool to focus on the areas where your company may have some deficiencies.

The overall rating is a combination of several items reviewed in the preceding chapter, namely:

1. Is your business unique?
2. Is your business suitable for franchising?
3. Is your business a recipe for success?
4. How strongly are you protected?
5. How secure is that protection?
6. Is your company and its management ready?

No company, especially a small or medium-sized one is ready to expand indiscriminately into just any foreign market. Your overseas readiness rating is only meaningful if it applies to a specific foreign country (or at least to a specific group of foreign countries).

To avoid confusion, please indicate here the name(s) of the foreign country(ies) you are targeting. In other words, what you see as your target market country(ies).

Our target market country(ies) is(are): _____

Questionnaire

Is your business unique?

Answer each question by putting a check mark in the appropriate box. Only one check mark per question, please.

1. *Is your business unique in Canada?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

2. *Is it unique because of some patent, trademark or other form of intellectual property?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

3. *Is the total "business package" unique?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

4. *Is it also unique in the overseas market you want to expand into?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

Your uniqueness rating

Interpretation

You should have answered Yes to all four questions.

If you did not answer Yes to question one, your business is not unique and it is doubtful that is suitable for franchising, even in Canada.

If you did not answer Yes to question two, your business may be not be franchisable.

Even if you answered Yes to questions one and two, but did not answer Yes to question three, your business is not franchisable. It may however still be suitable for licensing.

If you did not answer Yes to question four, your business may be not be franchisable in the target market.

The fact that your product, service or business concept is not "unique" does not mean that you cannot establish yourself and even prosper, at home and overseas, it only means that it is not recommended that you do it via franchising.

Score summary:

If you answered:

Yes to questions one to four, your "uniqueness" rating is: ***Strong***

Any other combination of answers rates as: ***Weak***

Questionnaire

Is your business suitable for franchising?

Answer each question by putting a check mark in the appropriate box. Only one check mark per question, please.

1. *Is success tied to some special local cultural, climatic or legal factor?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

2. *Is your competitive advantage in Canada due to the fact that you use a special ingredient which is only available locally, or much cheaper locally?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

3. *Do you need to be present to monitor quality?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

4. *Do you need to be present to control production/sales volumes?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

5. *Is this a risky type of business?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

6. *Is any kind of special talent or ability required?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

Franchising suitability scoring sheet

Please indicate how many No answers you had in the preceding section.

No _____

Interpretation

There are certain things that make a business unsuitable for overseas franchising. The business must not be dependent on local factors or special ingredients not available in the target market. Also, it cannot be dependent on your personal presence, on special talents, or be too risky.

If your business is suitable, you will have answered No to all six questions.

If you scored less than 6 you probably have a business which is not suitable for franchising. Trying to establish a franchise based on an unsuitable business is unlikely to succeed!

Score summary:

6 points = ***Strong***

0 to 5 points = ***Weak***

Questionnaire

Is your business a recipe for success?

This section assumes that you are trying to figure out if your business, as it exists today in Canada, is a recipe for success which can be franchised overseas. Disregard this section if you have developed a business package which is specifically designed for overseas markets, and not suitable for the Canadian market.

Answer each question by putting a check mark in the appropriate box. Only one check mark per question, please.

1. *Provided it is well located and operated, is this business profitable in Canada?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

2. *Provided it is reasonably located and operated, is this a low risk venture in Canada?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

3. *Provided it is reasonably located and operated, is this a steady income generator in Canada?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

4. *Are there reasons to believe that profitability and risks would be different in the overseas target market(s)?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

5. *Can the business be replicated in the overseas target market(s)?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

6. *Can the business be taught reasonably easily, even to people from different backgrounds, culture and language?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

7. *Is there a clear, predictable way of doing things which can be put down in writing?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

Questionnaire (continued)

Success formula scoring sheet

Please indicate how many Yes answers you had in the preceding section. Other answers have zero value and do not have to be counted.

Yes _____

Interpretation

If you scored between 0 to 5, you probably do not have a recipe for success which is transferable to your overseas target market(s). Trying to expand such a franchise overseas is unlikely to succeed!

If you scored at least 6 or better, it would appear that you have a recipe for success which is transferable to your overseas target market(s). Although this is not a guarantee of success, it is a very positive factor in your favor.

Score summary:

0 to 5 point = Weak
6 to 7 point = Strong

Questionnaire

How strongly are you protected?

Answer each question by putting a check mark in the appropriate box. Only one check mark per question, please.

1. *Is your main product patented or strongly protected by trade secrets?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

2. *Is the main production process patented or strongly protected by trade secrets?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

3. *Are there key parts or components patented or strongly protected by trade secrets?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

4. *Do you control the production of key parts or components?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

5. *Is the brand name registered as a trademark?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

6. *Is the product design protected?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

7. *Is the logo registered as a trademark?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

8. *Is the marketing slogan copyrighted?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

9. *Is the packaging registered?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

10. *Do you hold patents and/or registered trademarks for the country(ies) you wish to expand to?*
    - a) Yes ☐
    - b) No ☐
    - c) Don't know/Not applicable ☐

Questionnaire (continued)

International protection scoring sheet

Please indicate how many Yes answers you had in the preceding section. No, Don't know/Not applicable answers have zero value and do not have to be counted.

Yes _____

Interpretation

Questions 1, 2 and 3 are critical. To be protected you need to have at least one of the following elements covered: your product, process or main components. If you answered negatively to 1, 2 and 3, you are not strongly protected, regardless of your overall score. Even if your product, service or business concept is unique, it does not appear that it is protected enough to form the basis of a strong franchising operation. You should consider obtaining the necessary patents and copyrights before embarking on your franchising expansion plans.

If you scored between 0 and 5 points, but answered yes to question 1,2 and 3, you may have enough intellectual property protection to expand through licensing, but you should review the situation to see if you could improve your level of protection.

If you scored between 6 and 10 points, and especially if you answered yes to question 10, it would appear that you have the basic intellectual property protection necessary to set up a sustainable franchising operation. Remember however that a franchise is first and foremost a recipe for success. Just because your product or service is unique and protected, it does not necessarily mean that it is profitable at home or in the target market.

Score summary:

If you answered No to Questions 1, 2 and 3, regardless of score	=	*Weak*
0 to 5 point, and you answered Yes to Questions 1, 2 and 3	=	*Medium*
6 to 10 point, and you answered Yes to Questions 1, 2 and 3	=	*Strong*

Questionnaire

How secure is that protection?

Answer each question by putting a check mark in the appropriate box. Only one check mark per question, please.

1. *Are any of the preceding patents or trademarks being seriously contested?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

2. *Can the product/service be duplicated without infringing on the patents or registered trademarks?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

3. *Are any of the preceding patents about to expire?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

4. *Are your trade secrets becoming obsolete?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

5. *Are there aggressive competitors in your home market?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

6. *Are there strong foreign competitors also interested in overseas expansion?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

Questionnaire (continued)

Protection security scoring sheet

Please indicate how many Yes answers you had in the preceding section. No, Don't know/Not applicable answers have zero value and do not have to be counted.

Yes _____

Interpretation

In this section, you want the lowest score possible.

If you scored 0 points, it would appear that you are well protected both here and overseas, both now and for the foreseeable future. This should give you a good basis for franchising.

If you scored between 1 and 3 points, you have some problems, but you may have enough intellectual property protection to expand through licensing.

If you scored between 4 and 6 points, it would appear that your intellectual property protection and possibly your competitive position is not secure enough to set up a sustainable franchising operation.

Score summary:

0 points = *Strong*
1 to 3 points = *Medium*
4 to 6 points = *Weak*

Questionnaire

Is your company and its management ready?

Answer each question by putting a check mark in the appropriate box. Only one check mark per question, please.

1. *Does your company have the financial resources to undertake an overseas franchising expansion program?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

2. *Does your company have enough competent people available to take care of all the overseas training and supervision required to start the franchising expansion program?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

3. *Is management sufficiently committed?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

4. *Do you have a good understanding of the risks?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

5. *Do you know enough about overseas franchising?*
   - a) Yes ☐
   - b) No ☐
   - c) Don't know/Not applicable ☐

Questionnaire (continued)

International franchising management readiness scoring sheet

Please indicate how many Yes answers you had in the preceding section. No, Don't know/Not applicable answers have zero value and do not have to be counted.

Yes _____

Interpretation

Even if your products are suitable for overseas franchising, if you scored between 0 and 2 points, your company may not have the necessary knowledge, resources and commitment to undertake such an expansion program at this time.

If your business concept appears to be suitable and ready for international franchising, and if you scored between 3 and 5 points, franchising appears to be a viable and possibly attractive overseas expansion option.

Score summary:

3 to 5 points = Strong
0 to 2 points = Weak

Questionnaire

Is International Franchising for you?

This section interprets the overall scores from the previous section, it then tells you whether you should consider international franchising as an option for overseas expansion.

First, look at your ratings for sections 1 and 2. Are both ratings Strong?

Unless your ratings are Strong for sections 1 and 2, all other measures of international franchising readiness are meaningless.

If your ratings for sections 1 and 2 are Strong, you should now look at your score summaries for sections 3 to 6 and make the appropriate check marks in the corresponding columns of the table below.

Example, if you scored Strong in Score summary 3, "How strongly are you protected?", make a check mark in column three.

	Weak	Medium	Strong
3. Is your business a recipe for success?	_____	_____	✓

International franchising readiness, interpreting the overall score

	Weak	Medium	Strong
Score summary 3 (success):	_____	_____	_____
Score summary 4 (protection):	_____	_____	_____
Score summary 5 (security):	_____	_____	_____
Score summary 6 (management):	_____	_____	_____

Add the check marks in each of the above columns and write them in the corresponding line below, multiply by the values and add the total score:

		Values
Weak	_____	x 0 = 0
Medium	_____	x 1 =
Strong	_____	x 2 =
Total score		= _____

Questionnaire (continued)

Interpretation

If you scored between 0 and 6 points

It does not seem that you are ready to venture into the international franchising business without taking considerable risks. You should probably avoid focusing on international franchising for the moment. Working at improving your company's overall international franchising strength should put you in a more favorable position in the future.

If you scored between 7 and 8 points

You do not seem to have a complete combination of suitability, recipe for success, strong and secure protection, and company readiness necessary to expand internationally through franchising without incurring a substantial risk of failure. You may, however, have a much better chance of success if you had several definite franchise prospects in a low-risk country such as a neighbouring U.S. state.

If you scored between 9 and 10 points

It appears that your company has a reasonable combination of unique business concept, strong protection, attractive recipe for success, motivation and corporate commitment necessary to start franchising abroad.

7. Expanding Overseas Through Licensing and Franchising

If your ratings are good, you should now be in a position to start planning your overseas expansion. This and the next three chapters will help you do just that.

In this chapter we will go through all the major steps of the preparation process. Starting from what you have to do even before you begin planning, to the development of a franchising business plan, a discussion of overseas expansion financing related issues and getting organized to operate abroad.

The next chapter, "Preparing the Agreement Templates," includes an in-depth look at license and franchise agreements.

The following chapter, "The Franchise Operating Manual," deals with how to develop a complete franchising operating manual.

The last chapter, "Selling Licenses and Franchises Overseas," will guide you through the steps necessary to sell licenses or franchises overseas.

Before You Start-up

Before starting to develop your licensing or franchising expansion plan, make sure that you are appropriately structured and organized. If you skip this important preliminary step you will probably find that you have to stop somewhere along the way and go back to step one, with all the costs, risks and aggravation this involves.

The Franchise Prospectus

You just received a call from somebody in New York who introduced himself as a resident of Los Angeles. The person says that he heard of your intention to launch an international franchise based on your successful experience in Canada. The person informs you that he would be interested in a franchise for Puerto Rico which is exactly where you wanted to locate your first franchise. During the conversation, the person asks you to tell him a little bit more about this exciting opportunity. What do you do?

1. You explain the idea and try to sign him up right there and then.
2. You tell him that you are coming to New York tomorrow to close the deal.
3. Ask for his name, address and phone number and inform him that you cannot answer any questions, or even talk to him at this time.

Unfortunately, the correct answer is three! It is illegal to promote or sell franchises in California (and in many other places) until and unless you have registered and filed a complete prospectus for that purpose known as the "Uniform Franchise Offering Circular" (UFOC). The UFOC is an expensive legal document which includes a detailed description of your proposed franchise plans and full disclosure. Under California law (as well as in many other U.S. states and foreign countries) any conversation can be interpreted as an attempt on your part to promote or sell a franchise, and you could be sued, in California, under California law, for having illegally offered to sell a franchise to a California resident, even if it happens outside of California.

Before you even start thinking about franchising, seek legal counsel from an experienced franchise attorney.

The franchise prospectus, is a legal document, full of audited facts and figures about the franchise which the franchisor must supply to every prospective franchisee. It is not always required, but when it is (as in the case of Alberta, or California), the prospectus is a legal disclosure document. In other words, the prospectus must contain a variety of facts and figures about the franchise which are warranted by the franchisor as being true, or at least representative of the proposed franchise.

Do not even dream of developing your own franchise prospectus without specialized legal assistance. Even better, stay away from states or countries which have restrictive franchise prospectus legislation. As a new, inexperienced franchisor, your franchise package is probably incomplete, and less than perfect. It is unlikely that you could meet the requirements for filing an acceptable franchise prospectus. The cost and delays alone would probably be prohibitive. If you must, be prepared as if you were operating under the toughest legislation (such as California).

Franchise prospectuses are minefields. First, everything you say in the prospectus can, and will be used to sue you. Anything that you say anywhere else in the promotional package, if it is not confirmed in the prospectus, can also be a source of trouble. Worse still, there is now a cottage (some say a mansion) industry of individuals making a living from urging franchisees to sue their franchisors. Many experienced franchisors are trying to avoid the problem altogether by creating partnerships which operate as a franchise would, but do not fall under the franchising regulation legislation.

Get Structured for International Protection and Control

At this point, you should review the chapter on intellectual property rights and examine the extent to which it can assist you in protecting different aspects of the business package you want to franchise.

The very first thing you should do in preparation for your overseas franchising (or for that matter licensing) expansion, is to identify and secure the most appropriate forms of protection available for your intellectual property. If you fail to this now, you may not be able to secure protection later on, and the very foundation of your franchise may be in jeopardy.

Seek information about the intellectual property laws in the host country by first contacting the government agency that is responsible for the administration of intellectual property laws. These agencies will often have available extensive, user friendly and free information on patents, trademarks, etc. In Canada, look for the Canadian Intellectual Information Office of Industry Canada for more information on Canadian intellectual property laws and practices.

Although many countries have adopted very similar intellectual property regimes to the one in Canada, there can be some unexpected differences overall, so do not fail to inquire.

Shelter your rights

One smart way to protect your intellectual property rights is to create a separate corporation to which you can transfer all the intellectual property rights. This corporation should be completely separate, owned directly by yourself and your partners (if any), and should never be a co-signatory to any loan, mortgage, etc. This way, even if your main line of business goes bankrupt, you will at least have protected your key patents, trademarks, etc.

Use a registered agent

Drafting a patent application, a trademark, or an industrial design registration request can, in certain instances, be quite complicated. You will probably be better off having the whole process handled by a registered patent or trademark agent. Trying to do it yourself, or going through an unregistered agent can lead to substantial trouble later on and, since your intellectual property rights are likely to be the cornerstone of your franchise, this could jeopardize the whole business.

In most cases, the Canadian agent will be able to handle registrations for both Canada and the target market or indicate a reliable agent in the target market. Registered agents have been trained in the field and have to meet stringent requirements. Usually, the government agencies that administer the intellectual property laws are also responsible for the registration of agents. These agencies can provide a list of registered agents upon request (usually free of charge), even though most can be found in the Yellow Pages.

Develop a Business Plan

By all means, you should develop a business plan for your overseas franchise expansion. This plan should have two objectives: serve as a guide and performance benchmark, and be available to present to banks and other financial and regulatory institutions that may require it.

Although parts of it may be confidential, this plan should also form the basis for your sales pitch to prospective franchisees and for negotiating franchise agreements.

The most practical way to prepare your business plan is to use a three-ring binder with plenty of divisions for the key sections. This way, you can revise and update individual sections and even remove confidential sections as required.

In the same way as all international business plans, this one must be focused on one or more specific overseas markets. There is no such thing as a one-size-fits-all international franchise business plan.

Your overseas franchising business plan should include the following sections:

- A brief history of the company: its products, major events, senior managers, etc.
- The rationale for franchising: why international franchising, why in that particular foreign market, why now?
- The franchising program: describe your unique business concept, explain its advantages, describe your initial and ongoing contribution to prospective franchisees and expected fees and royalties from franchisees.

- The pilot: if there is a pilot unit, describe it, discuss it, and include (audited) results.
- The target market choice(s): describe the foreign market(s) you will be aiming at, explain why, including market research and other relevant background material.
- Outline the legal and regulatory environment in the target(s) market(s): this is where you describe the host country laws and regulations which may affect the franchisee or its relations to the franchisor and how you intend to deal with it.
- Outline goals: indicate and explain the sales, costs, profits and rate of return expectations for you, the franchisor, and for the typical franchisee (minimum three years, ideally five).
- Outline financial requirements: estimate capital, working capital, short and long-term requirements for franchisor and typical franchisees.
- Outline major operations and management issues: present and discuss all the major operational and management issues that you have identified and explain how you intend to deal with them.
- Outline start-up considerations: are there deadlines or regulations which must be met, possible delays, etc., that potential investors and prospective franchisees should know about?

Financing the Overseas Expansion

Franchising is an excellent solution for companies with limited resources who want to expand faster than their own internal resources would allow. It is also a good way to reduce the risk and to raise the rates of return. Still, it is not a universal remedy, and you should be careful not to fall in the undercapitalization trap.

You know that you are undercapitalized when, due to cash-flow problems, you cannot continue without selling more franchises at ever increasing initial fees.

This dangerous situation occurs when a franchisor tries to grow too fast, too aggressively, by pegging entry fees below initial costs thus resulting in a short term cash flow crunch.

Experienced franchisors will tell you that the maximum sustainable expansion speed is reached when ongoing royalty profits (after deducting ongoing costs) from existing franchises cover the shortfall between the costs of setting up a new franchisee and the start-up fees collected from that new franchisee. They will also tell you that unless you are in a mad race with other franchisors – you must expand or lose the business – you should never try to get even close to the maximum expansion speed.

You would be wise to develop a budget for overseas franchise expansion in your business plan. As a matter of fact, you should probably consider increasing the capital base of the company, or at least securing a substantial long-term loan, or line of credit to cover the franchise expansion effort.

The expansion budget should also take into consideration the sizeable up-front investment that will be required to set up the pilot franchise, to develop the franchise agreement template, the franchise operating manual, the training material, the franchise prospectus and the overseas selling effort (all of which are discussed later).

In addition, the budget should take into consideration the cash-flow impact of each new overseas franchise start-up. These costs represent site selection, facilities design, equipment, training, marketing materials, personnel recruitment, accounting and legal fees, research and development, and perhaps consulting fees where needed.

Doing business in the target market

As stated earlier, your international franchising business plan must be targeted to one or more specific countries. Besides the obvious fact that you want to be sure your franchisees, and yourself, can grow and prosper in that market, there are a few more immediate concerns, such as: can you operate, in the short and in the long term, legally and profitably in that country?

Before you start contacting prospective franchisees and potential sources of funding for the deals, you should make sure that you meet, or are in a position to satisfy all host country regulations, including local intellectual property protection regulations, competition, taxation, liability legislation, corporate and special industry laws (both construction and franchising), as well as property, zoning, signage, contract and employment legislation (liability, insurance, workman's compensation, etc.), in addition to all the rules and regulations pertaining to importing whatever materials and components are involved.

You should also check other rules and regulations. For example, in certain countries, once you have hired somebody and kept that person on the payroll for a year or so, you can no longer fire that person. Yet in other countries you must adapt all your signage to the local language. Some countries (although considerably fewer than years ago) have severe restrictions on royalty remittance and do not allow the protection of trade secrets.

Some U.S. states require a Uniform Franchise Offering Circular (UFOC), while others do not. The problem is that even in those states that do not require it, if you are sued, the courts will base their decisions on the U.S. federal legislation from which the California UFOC is drawn. Experienced U.S. franchisors protect themselves by filing a California UFOC (the toughest of them all) or at least by making sure that they have the equivalent information on file.

8. Preparing the Agreement Templates

Now that you have protected your intellectual properties and developed a business and financing plan for your overseas expansion, you can begin the critical task of developing the licensing, or franchising agreement template, as required.

This chapter includes a complete review of the typical licensing and franchising agreements. Each section starts with a typical table of contents of such an agreement. Each item is then explained in detail.

Even if your intention is to develop a franchise network, you should read the licensing agreement section. This is because many franchises also incorporate licenses as part of the package. Clearly, this means that a franchisor may, at the same time, be linked to you by a franchise agreement, and by one or more specific license agreements.

The License Agreement

Most license agreements are not complicated affairs. They generally include three major sections:

- description of the intellectual property rights being negotiated,
- modalities, including territory, exclusivity, fees and royalties, and
- controls, including such issues as venue, modifications, conflict resolution, bonding, etc.

Even though license agreements are generally far simpler than franchising ones, you should always make sure that they have been reviewed by a competent attorney, and by your accountant.

The License Agreement – Table of Contents

- The intellectual property rights being granted
- The territory and exclusivity
- Royalties and fees
- Quality and performance
- Use, abuse and fee controls
- Venue, modifications, conflict resolution, default and termination
- Bonding

The rights being granted

The usual licensing agreement starts by describing what intellectual property rights are being granted (a patented product, a trademark, etc.), it then defines what is being negotiated (production, use, display, sale, etc.). This section would also likely contain references to the duration of the agreement, as well as to what constitutes an infringement of the licensing agreement, the penalties, cancellation and renewal conditions.

A good licensing agreement, from the point of view of the licensor, should include a clause stating that any improvement made by the licensee to the product or process covered by the license agreement will revert to the licensor, at no cost.

Territory and exclusivity

The size of the territory involved in a license agreement is usually relatively easy to determine, as the licensee is most often already established in a well defined market within which the license will apply.

The agreement should detail the geographical area, whether the licensee will have exclusive or non-exclusive rights in that territory, for what time period, and renewal conditions. For example, a license could include the rights to sell and install a new patented insulation material in Latin America only, with no rights to sell outside that area. Furthermore, the licensing agreement could specify that only the residential sector is covered by this license. This would mean that the licensor would be free to negotiate another license with other companies doing, for instance, insulation installations in Latin America, provided they operate in the commercial and institutional sector.

Royalties and fees

Licensing fees and royalties are generally straightforward. If the license involves an exclusive territory for some hot new product, technology, or even brand name, and more importantly, if there are several competitors interested in the license, there may be an opportunity to charge an entry fee. A start-up fee may also be required if the transfer of the license requires training or some other form of assistance.

In practice, however, most licensing agreements have little or no up-front payments and rely almost entirely on royalties. Royalties may be based on a fixed, or sliding per unit amount, or on sales, profit, or a combination of those. Some license agreements also provide for training and consulting fees for which the licensee must pay the licensor, as well as for certain optional services that the licensee may request from the licensor.

Beware of licensees who insist on paying royalties on a per unit basis only, without a significant minimum. Some companies are known to use this devious approach to freeze potential competitors out of the market. They negotiate an exclusive license and then keep the product off the market by not using the license, or by producing only an insignificant number of units. They then claim that "there is no demand" for the item.

Quality and performance

The licensing agreement should define the quality or performance criteria that the licensee must maintain in order not to tarnish the value of the object of the license. For example, the licensor of a new truss system may require that the trusses produced under license, by the licensee, meet certain strength, durability and other relevant quality standards in order to avoid bad publicity, possible lawsuits and a loss in the value of his patented truss system.

Use, abuse and fee controls

For the licensor, the main concerns are:

- Is the licensee extending its use of the intellectual property beyond what has been agreed? For example, is the licensee producing something that was only licensed for distribution?
- Is the licensee paying what should be paid under the license agreement?
- Is the licensee producing more units than are being declared?
- Is the licensee producing things below agreed upon standards?

There are several techniques that can be used to control, but not to eliminate these problems. All involve some form of supervision or auditing. Most licensors, at their own expense, reserve the right to have the licensee audited at any time. If the audit uncovers specific infractions to the license, the cost of the audit is borne by the licensee, and depending on the severity of the infraction, the licensee may forfeit a hefty "surety" bond and may even lose the rights to the license.

Venue, modifications, conflict resolution, default and termination

The last section in the license agreement deals with venue, modifications to the agreement, conflict resolution, default and termination.

Venue refers to the place where the contract was signed, and which legislation is the applicable one. Obviously, you might prefer the Canadian legislation to apply, but most countries will require that the licensing contract be subject to their laws and regulations.

The agreement must be for a certain number of years, after which fees and royalties could be renegotiated. It is best to provide for renegotiation early, and to agree beforehand on binding arbitration if some issues cannot be resolved by mutual agreement.

A licensee cannot sub-license, or transfer the license without the prior agreement of the licensor.

The license agreement should specify what constitutes abuse, default, or breach of contract.

Termination can usually be based on factors such as: bankruptcy of a licensee, quality control or intellectual property abuse, unpaid fees, exploitation of territory beyond the one granted, inaccurate accounting, unmet performance targets, etc.

The agreement should list the licensee's obligations at the time of termination. For example the licensee should be required to settle all royalties and fees, return all confidential manuals, and cease to use the patents, trademarks and any other intellectual property covered by the license.

Any action you may take because of a perceived abuse, fraud or default, especially if it involves termination of the agreement, is likely to lead to litigation. To avoid cost and delays, you may want to include other conflict resolution mechanisms in the agreement. Once agreed upon, such mechanisms as mandatory arbitration can generally be enforceable.

Bonding

If possible, and you are likely to get some resistance, you should require the licensee to post, in Canada, a significant performance bond to ensure compliance with the terms of the license.

The Franchise Agreement

In many countries, the law requires that the franchisor submit to its prospective franchisee a document which explicitly describes the terms of the franchise. In this section, we review the main components of such a franchise agreement document.

Preparing the agreement

Your basic franchise agreement should be prepared with the assistance of a qualified North American lawyer familiar both with franchising and the construction industry, and with the help of a franchising consultant. It should then be reviewed and adapted by a qualified lawyer from the target market country, and then reviewed again by your attorney. Unless your business is retail oriented, try to work with lawyers and a consultant whose experience is not limited to fast-food and other such franchises. Their expertise is in a field which, although it has the same name, is considerably different from the one you require.

Preparing your basic and your locally adapted franchise agreement is likely to be one of the major cost components of the whole project. It is also one where cutting corners and saving pennies may come back to haunt you.

The section below, which outlines the main components of a typical franchising agreement, should be used primarily to ensure that all key areas are covered.

The Franchise Agreement – Table of Contents

- Introduction
- Description of intellectual property rights being granted
- Franchisor and franchisee rights and obligations
- The territory, leases, premises and equipment
- Record keeping, accounting and performance monitoring
- The franchise fees and royalties
- Training and operating procedures
- Taxes, insurances
- Venue, modifications, conflict resolution, default and termination
- Compliance bonding

Introduction

The introduction should include a description of the business concept being franchised – what makes it unique and the success recipe.

Description of intellectual property rights being granted

Intellectual property includes the patents, trademarks, industrial designs, copyrighted material, trade secrets, etc., which belong to the franchisor and are being granted to the franchisee for use in the franchise. These should be carefully listed and described. Whenever possible, attach samples, drawings or pictures.

The agreement must clearly specify that all intellectual property is, and shall, remain the property of the franchisor, including all possible translations or local adaptations, or even improvements eventually developed by the franchisee. The franchisee must formally agree that ownership will not be contested and that the franchisor's intellectual property will only be used as allowed by the franchisor for the benefit of the franchise.

In order to protect your intellectual property, the agreement should stipulate that all uses of trademarks or copyrighted material in publications, advertising and marketing materials, labelling, etc., by the franchisee, will be subject to a prior review and approval by the franchisor.

The agreement should indicate that the franchisor retains the right to: use the intellectual property for other purposes, modify it and grant it to others. It must also be very clear that abuse of intellectual property is grounds for contract termination.

Trade secrets must be dealt with separately in the agreement. First, the agreement must clearly list, identify and define which information is truly a trade secret. Second, the agreement must establish that such trade secrets will be protected by the franchisee and will only be provided to employees who have a direct need to know.

All those who are provided with information about a trade secret must be required to sign a waiver of confidentiality covering the pre-employment, employment and post-employment periods.

In order to prove that company trade secrets are treated seriously (something you must do if you don't want to jeopardize your legal position), it is recommended that passwords be used to protect sensitive electronic files and that confidential files be clearly labelled and kept under lock and key.

Franchisor and franchisee rights and obligations

The objective of this section is to ensure that the franchisee gets a complete franchise package, as well as the benefit of the franchisor's experiences and lessons learned. It is also important to ensure that the franchisor is protected and fairly compensated.

The franchisee and the franchisor must acknowledge that, for the franchise to work, each will have to fulfill all the terms of the franchise agreement. This means the franchisee understands that the rules, regulations and procedures of the franchise have been tried and tested and shown to work. The franchisee also agrees to follow them and not to modify them without the franchisor's consent.

The agreement must list and describe what the franchisor will do for the franchisee, before and after the start of the franchise. This generally includes the use of intellectual property, access to the franchisor's success formula, training and operations manuals, finding a site, choosing the equipment, meeting regulations, ongoing field support, quality control, auditing, advertising and promotional support, help with suppliers, research and development, etc.

The agreement must also indicate that the franchisee is obligated to run the franchise according to the rules set by the franchisor, including quality standards, approved operating procedures (hours of operation, quality control, accounting), and get approval from the franchisor for all advertising, etc.

One of the most important rules, and one on which most franchisors insist on, is that the franchisee must be directly involved in the management and operation of the franchise. Experience shows that franchising works best when the franchisee is a small business person totally dedicated to the success of the franchise. In practice, this means that a franchisee cannot just own the franchise and have a hired manager to run it. It also means that a franchisee should not be given the opportunity to own more than a few franchises, at most. In addition, the franchisee cannot have any other full-time activity besides the franchise.

It must also be perfectly clear that the franchisee can only do business with, and on behalf of the franchisor. For example, the franchisee cannot use the franchised premises to do other business (cannot try to sell doors if it is a windows only franchise).

The franchisee must also agree to pay the initial fee, ongoing royalties and fees for services (as provided).

The territory, leases, premises and equipment

There are two types of franchises: Master franchises and individual franchises. A Master franchisee has the right to subdivide the territory negotiated into individual franchises. Individual franchisees cannot, as a rule, subdivide their territory, but may sometimes establish more than one outlet in their territory.

The territory is the specific geographical area over which the franchisee is generally given exclusive exploitation rights for the duration of the agreement. Unless the agreement specifically indicates that the franchisee is a Master franchisee, the franchisee should not be given the right to subdivide the territory negotiated and establish other franchise outlets without specific prior agreement by the franchisor. To avoid problems, it is best to clear this point up in the agreement.

Your attitude regarding the territory should be guided by the type of agreement that you are contemplating. If it is a straight franchise, try to keep the territory to a reasonable minimum. If, however, you are considering a Master franchise agreement in which the Master franchisee is going to try to resell the franchise on your behalf within his territory, then you must allow for a larger territory.

The size of the territory should be based on the franchisee's capabilities and experience. If the territory is too small, the franchisee will not prosper. If it is too big, it may not be fully exploited. For example, you should refrain from granting a franchise for the entire Japanese market to one franchisee, unless that franchisee can clearly demonstrate having the resources to service the whole area well (and commit to do so over the next few years).

If you do not make sure that your franchisee has the resources and the necessary commitment, you may end up with a few sales in one area, and be effectively shut out of the rest of that country. In fact, asking for an oversized exclusive territory with no sales commitment is a favorite trick of businessmen who want to keep your products out of their market!

If a prospective Master franchisee asks you, for instance, for a Master franchise covering the whole of Australia, you may agree, provided the contract stipulates that the Master franchisee will lose the rights to any province, or city where profits, sales, or market share, are below a certain agreed upon level at the end of an agreed period of time. This way, you give the Master franchisee a chance, but you also force him to achieve good results or give up territory.

Be sure that you are not giving two franchisees exclusive rights to overlapping territory. One solution is to give franchisees exclusive rights to a territory, for a specific type of client. For instance, in the case of an insulation franchise, one licensee can cover the residential market while the other covers the commercial and institutional one. The franchisor may want to reserve the government market.

Real estate leases and equipment leases are two major elements in most franchises. Real estate leases are especially important in the case of retail oriented franchises, while equipment leases are usually crucial to other types of franchise operations. As such, you should do your homework ahead of time and develop a franchise agreement which meets your objectives, and is fully compatible with leasing rules and regulations in your target market(s).

- **Real estate leases**

  If your franchise includes an important retail component, for which location is key, you may want to control the site on which the franchise is being set up. This way, if there is any disagreement, you control the location. Also, as the franchise becomes more successful, you benefit from a higher rent. This can be done either by purchasing the land and building, or by becoming the prime lessor and making the franchisee a sub-lessor. Both options involve risks and are not recommended during your initial overseas expansion. Later on, when you know the market well and risks are minimum, it may be an option to consider. This is however only significant if you are in the retail trade.

- **Equipment leases**

  Very often, a franchise requires specialized equipment which is not available in the target country. In addition, the franchisee may lack the cash to buy the equipment outright, and the equipment manufacturer may be reluctant to enter into an international lease agreement with the prospective franchisee. In these cases, you as the franchisor may have to be the lessor, with the franchisee as the sub-lessor. Alternatively, you may have to find a source of financing for the franchisee.

Being the prime lessor has risks, but also advantages. If there are disagreements with the franchisee, you can repossess the equipment and effectively avoid the creation of a competitor.

Record keeping, accounting and performance monitoring

Since the franchisee is not an expert, and you are not present to help and supervise, you must establish a good record keeping, accounting and performance monitoring system to make sure that the franchise is not drifting off track. It is your responsibility as the franchisor to include such systems and all the related forms in the operating manual (see next chapter).

At the very least, the system should control quality, quantity, costs and revenues, plus any other information that you need to monitor the health and performance of the business.

Record keeping, accounting and control procedures should be simple and at the same time difficult to bypass. For example, all production machines should have tamper-proof meters; no work should be done without a work-order, and so on. Some controls are indirect, but very clever. For example, fast-food franchises do not monitor the number of hamburgers being sold, they track the number of boxes. For best results you should have several overlapping controls rather than only one. As you get more franchisees and more accumulated statistics, it also becomes possible to control by comparison. For example, one franchisor tracks electricity consumption because it correlates very closely with sales. Another common solution is for the franchisor to be the sole source of a small, but key ingredient or component.

Controls work best if you receive reliable information with little or no delay. For example, quality, quantities and sales figures could be forwarded daily or weekly; cost figures weekly or monthly. Other performance indicators, such as market share and client satisfaction should also be tracked, even if less frequently.

Using E-mail, the Internet, and Internet telephony, it is now often possible for you to communicate with your franchisees, and for them to provide you with data as often as you may require, for as little as $50 a month, regardless of where in the world the franchisee may be located.

A good system should tell you, early enough, if the franchise is doing well, or if it is developing a problem, so that there is plenty of time to fix it (increase training, send an assistant, increase level of advertising, break the contract, get a new manager, reduce the territory, take away rights, etc.). Quarterly statements available several month after the close of the quarter are useless for that purpose.

The performance monitoring section of the franchise agreement should clearly establish what performance criteria will be tracked, how frequently, and how. It should also establish what are the consequences of failing to meet agreed-upon performance criteria and the penalties for delayed or faulty information. The agreement should clearly state that, if performance measures are not met, the franchisor will have the right, at the franchisee's expenses, to make the changes necessary to ensure the ongoing viability of the franchise.

Finally, the agreement should emphasize that all financial and performance records must be kept current and safe, and will be made available to the franchisor, or the franchisor's auditors, at any time, immediately upon request.

Franchising fees and royalties

First, the agreement should specify how much, and when the franchisee will pay the start-up fees and under what terms and conditions. Start-up fees are likely to be somewhat modest for the first few franchisees, but as the franchise grows and becomes better known, it could become very significant. Some franchises started at $5,000 and are now requiring several hundred thousand dollars in entry fees.

Second, the agreement has to establish the type and level of royalties. Royalties can be based on number of units sold, total dollar sales, or even gross or net profit. Per unit royalties are better, as they are easier to monitor. However, when dealing with services where prices vary from one client to another, a sales volume based royalty is also acceptable. Royalties on profit should be used as "second level". For example, a franchise will have a royalty on per unit sales and an additional royalty on profits above a certain amount per period.

As opposed to initial fees, which tend to increase with each new franchisee, royalties tend to be the same for all franchisees, although they can evolve over the long term. Royalty levels vary considerably from one industry sector to the next. Fast-food franchises will typically require royalties in the one to six percent of sales, but the franchises in the service sector may involve much higher royalty rates. There is no established range for the housing sector.

There should also be a section on fees for services. These are payments the franchisee agrees to pay the franchisor for such services as supplies, training and consulting.

Finally, there is a need to establish how much the franchisee will have to contribute for such things as research and development, advertising, promotions, brochures and catalogue development, maintenance of the Internet Web site, etc., which the franchisor manages on behalf of all franchisees.

Failure by the franchisor to keep an open book approach can easily become a sore point in the negotiation or in the relationship between franchisor and franchisees. Franchisees may feel that they are subsidizing the franchisor instead of paying a fair share, or that they are not getting anything worthwhile in return.

As the franchisor, you must be careful not to set fees and royalties too high because this would scare off high quality franchisees, and make it difficult for franchisees to earn a satisfactory return on their investment and their work. On the other hand, they should not be set so low that they undervalue the services you provide, and fail to meet your own profit objectives.

You, the franchisor are generally responsible for dealing with exchange control regulations and other restrictions to fees and royalty transfers to Canada. The franchisee, however, is responsible for the payment of the fees and royalties. A franchisee's failure to pay fees fully on the due date should be a clear breach of contract.

Training and operating procedures

If the franchise is to be a working copy of the original business developed by the franchisor, it must perform according to the same operating procedures, and staff must have the same type and level of training. Operating procedures are all the rules and regulations applicable to the business. Operating procedures start with the company's code of conduct and include such items as hours of operation, uniforms, payments to employees, return and refund policies, hiring and firing, etc.

The franchise agreement must state that the franchise will be run according to the operating procedures supplied by the franchisor, and that the franchisee may not deviate from those procedures for reasons of local regulations or otherwise, without the prior agreement of the franchisor. For more details on operating procedures, read the next chapter on how to develop your franchise operating manual.

Because it takes properly trained staff to implement a set of operating procedures, the agreement must also specify that the franchisee is committed to have all the staff in the franchise trained according to the requirements of the franchisor. The agreement should also specify whether the franchisor will provide the training locally or whether the franchisee, and perhaps key staff members, will have to come to Canada for training.

Although the franchisee may have to pay for training, the cost of the initial training should be included in the start-up fees.

All the training and operating procedures material is proprietary information and should be protected and copyrighted.

Taxes, insurance

The agreement should include the obligation by the franchisee to be up-to-date with all business taxes and income tax and to carry sufficient fire, loss and liability insurance. The franchisee should send proof of payment of all taxes and a copy of the insurance policies to the franchisor.

Venue, modifications, conflict resolution, default and termination

The last section in the franchise agreement deals with venue, modifications to the agreement, conflict resolution, default and termination.

Venue is the legal jargon which refers to the place where the contract was signed, and to the applicable legislation. You may prefer to sign the contract in Canada and have it ruled by the Canadian legislation, but this may not be possible, since most countries require local franchise contracts to subject to their laws and regulations. A good attorney may however offer some valuable suggestions on that issue.

The agreement must be for a certain number of years, after which some items such as services, fees and royalties could be renegotiated. It is best to provide for renegotiation to start as early as one year or so before the end of the agreement and to agree beforehand on binding arbitration if some issues cannot be resolved by mutual agreement. In any case, final notice of non-renewal of the agreement should be given early enough so that the franchisee, or the franchisor, has time to find another buyer.

One of the most important items in this section has to do with the right to sell the franchise. Under normal circumstances, a franchisee has a right to sell the franchise, but the franchisor may refuse potential unsuitable franchisees, and may nominate a more suitable buyer. On the other hand, the franchisor may force the franchise to be sold, if there is a breach of contract or poor performance. In any case, it must be clear that the new franchisee will have to abide by the same agreement as the previous one, including fees, royalties, operating procedures, training requirements and protection of the franchisor's intellectual property.

Another item which should be considered carefully is the one dealing with abuse, default, or breach of contract. You should sit down with your legal advisor and go over this, point by point. Try to list and specify what is included under each category, but be sure that you include a few "catch-all" clauses, or you may find yourself faced with an abusive situation which is not covered in the agreement.

Termination of the franchise relationship deals with the franchisee losing the rights to the business. Termination can usually be based on factors such as: bankruptcy of a franchisee, quality control abuse, intellectual property abuse, defaulted contracts, unpaid fees, non-approved sale of business, exploitation of territory beyond the one granted, inaccurate accounting, unmet performance targets, death, etc. In most cases, the only remedy is termination of the franchise, but you should not preclude less drastic remedies such as remedial training, or removal of individuals.

The agreement should list the franchisee's obligations at the time of termination. For example the franchisee should be required to return all copies of the operations manual, settle all royalties and fees, cease using patents, trademarks and any other intellectual property belonging to the franchisor, and refrain from divulging any trade secrets.

For added protection, the agreement should indicate that the franchisee and immediate relatives are barred from engaging in a business similar to the franchisor's for a period of no less than a specific number of months or years. The actual number of months or years will depend on the country's legislation. Some countries will limit this clause to six months, others may allow three years or more, others still will allow no period at all if the franchisee was already involved in this line of business before becoming involved in the franchise.

Some countries will not recognize the clause that binds franchisee's relatives who were not involved in the business. In this case, you must be sure that the relatives are party to the original franchise contract, and that they sign all the non-disclosure agreements.

Any action you may take because of a perceived abuse, fraud or default, especially if it involves termination of the agreement, is likely to lead to litigation. To avoid cost and delays, as well as potential loss of trade secrets, you may want to include other conflict resolution mechanisms in the agreement. Once agreed upon, such mechanisms as mandatory arbitration can generally be enforceable.

Compliance bonding

If possible, you should ask franchisees to post a suitable performance bond, in Canada, to ensure compliance with the terms of the agreement. Unfortunately, in addition to being costly, and often difficult to obtain, this may be frowned upon by potential franchisees and may not be acceptable under the regulations of the host country.

9. The Franchise Operating Manual

The operating manual has become the franchisor's most important contribution to the franchisee. It is certainly not an exaggeration to say that, in a well organized franchise network, the operating manual is the franchisee's Bible. Preparing the operating manual is a major task which must be started as soon as possible. The operating manual is the first and most important document each new franchisee should receive upon joining the franchise network.

Licensing does not usually require the licensor to provide a full-scale operating manual, although it may require the provision of technical information.

A typical operating manual is generally made up of several fat three-ring binders. One would expect to find, at least, the following:

- The introduction and pre-launch procedures binder
- The operating procedures binder
- The human resources management binder, and
- The forms binder

Each binder is divided into many sections and outlines the methods and procedures required to run each specific aspect of the franchise. The complete set of operating manual binders should cover all the aspects of the business, except things such as the franchisor's business and financial plans, the profit and loss statements and other similarly confidential documents.

In addition to detailed explanations on all major production, maintenance, management, accounting, sales, repairs, etc., procedures, the manual should have specific sections dealing with all the common problems likely to be encountered by the franchisee.

A good operating manual is also one which has been adapted by the franchisor (possibly in cooperation with the local franchisee) to local conditions. For example, the manual must reflect local laws, regulations and customs with regard to opening and closing schedules (different countries have different closing days), holidays, as well as hiring and firing regulations. It should also incorporate, from time to time, new improved procedures which are the result of accumulated experience.

A good manual is important for the franchisee, but it is also important for the franchisor. If the manual is not complete, clear and detailed enough, and especially if it is too complicated or badly written, the franchisee and the staff will either make mistakes or be constantly on the phone with questions and problems.

Given the appropriate training and operating manual, any normal individual should be able to operate the franchise, even without constant on-site support from the franchisee.

Remember that all individuals who are likely to come into contact with company trade secrets and other confidential materials must sign the appropriate documents before they are given access to the information contained in the operating manual.

The operating manual is also an important "trade secret". For maximum protection, each copy should be numbered and each page should be clearly marked "commercial confidential – property of XYZ – not to be copied". For added protection, the manual should only be loaned to, never owned by the franchisee.

The operating manual should be the first document received by the franchisee at the start of the training program, which, by-and-large, should always take place before launching the business.

In this chapter we will review the main components of the operating manual.

The First Binder: Introduction and Pre-launch Procedures

The typical first binder is comprised of several sections: introduction; the franchise network; products and services; pre-launch procedures, all the way to the grand opening.

If you are planning to sell franchises in the U.S., the UFOC, which must be given to the franchisee as part of the first promotion/information package, will already cover most of the material of the first binder. In this case, the first binder will only contain items pertaining to pre-opening procedures.

Introduction

It is often by reading the manual that new employees learn about the company. The introduction should be direct, simple, but at the same time motivating. In this context, we often see company "histories" which have been substantially reviewed, or at least edited for marketing or public relations purposes.

The introduction should contain:

- Letter from the franchisor
- History of the business
- Reference to other franchises already in operation
- The company's philosophy, mission, achievements, code of ethics, etc.
- Selected excerpts from the franchise agreement: e.g. territory, expectations and obligations of the franchisor and franchisee

The franchise network

This section is intended to explain to the franchisee how the franchise network operates. Its main purpose is to give the franchisee a feel for the overall organization and also help in finding the people the franchisee may be looking for. In addition to a detailed flowchart, this section generally includes the name, address, phone, fax and e-mail for:

- The principal franchisor executives and department heads
- The heads, as well as key staff members of departments who do business directly with franchisees (technical support, marketing, accounting, training, shipping, etc.)
- All suppliers of goods, equipment and services which the franchisee can call upon, as required

The products and services

This is where the products and services to be provided by the franchise are presented and discussed in detail. Here, everything that makes the franchise unique, valuable and successful is pointed out and explained in detail. This section may be quite long – it is also where most trade secrets are located.

Pre-opening procedures

Pre-opening procedures are all those things that have to be done on time and on budget, according to specifications, before the franchise opens its doors to the public. Most of the items below apply to a franchise being built from the ground up. If you are turning an already existing business into a franchise, some adjustment will be necessary.

- **Pre-opening budget**

  The pre-opening budget includes details on all the expenses that will be required for the grand opening. Details include amounts as well as dates. Dates are generally expressed as "D" day minus X.

- **Pre-opening hiring and training**

  This section includes details on who should be hired when, and what training they should receive before "D" day.

Obviously, the operating manual provided to your first franchisee is unlikely to cover all items, or at least to cover them in great detail. This is why the first few franchisees pay less initial fees.

As your franchise network matures, you should nurture your operating manual to the point where it indeed contains everything a successful franchisee needs to run a profitable franchise.

Facilities and equipment

Depending on the franchise, and especially in retail oriented franchises, selecting a site, designing, building and outfitting the facility, are a major focus of pre-opening activities. In this case, procedures should be covered in detail in the operating manual and should include the following sections:

- **Site Selection and permits**

  This is an area where the know-how of the franchisor plays a very important role. One of the main reasons people buy franchises, rather than going into business by themselves, is that they recognize that many independent retail businesses eventually fail because they where badly located. They believe the franchisor has a lot more knowledge and experience than they do in selecting a winning location.

  The three most important aspects of a retail location site selection include: visibility, accessibility and suitability. If your franchise includes a retail component, the operating manual should include a well developed section, based on your experience, on how to investigate and evaluate sites for the franchise.

  The main elements of this section include:

  - *How to study the market*

    Most housing entrepreneurs do not undertake formal market studies, they operate from experience. If you are going to develop a franchise network, you must, however, put your experience on paper and set out a method for choosing a franchise location. For example, you will have to develop written rules on how to study the population in the market area of a proposed location, the market area being the area around a retail, wholesale, or even manufacturing business location from where the franchise expects to draw most of the clients. The market area for an ice-cream parlor may be a circle of only half a mile around the location, that of a prefabricated housing plant may extend a hundred miles or more. Fortunately, you can get help from a market research consultant who should be able to put your experience on paper, and test it at a reasonable cost (especially if you hire a consultant for future location studies).

- *How to evaluate a retail location*
  The operating manual should indicate what minimum number and mix of target clients, as defined by their customer profiles (age, sex, income level, family status, background, consumption habits, etc.), and what maximum level of competition, is allowable in the market area for it to be a desirable location, or at least a viable one.

- *How to assess the site itself*
  Another important item is assessing the site itself. Is it large enough to accommodate the store, the warehouse, parking, etc.? Is it visible from the street, or from a major street crossing? Is it easily accessible by car or by public transport? Is it on the right side of the street? Is the traffic flow sufficient? Is it the right kind of traffic? Is it near a location which potential clients visit frequently? Is there enough parking? Does the neighborhood have the right image? Is it a safe neighborhood? Does it comply with the zoning laws needed by the franchise? And so on.

These are some of the more common questions used in assessing the visibility, accessibility and suitability of a site. The operating manual should contain guidelines for each criteria.

- **Leases**
  The franchise agreement will define what type of relationship will exist between you (the franchisor), the franchisee, and the owner of the location, i.e., who owns the location, who holds the lease, etc. The operating manual is concerned with a completely different aspect of the issue, namely, what are the minimum, optimum and maximum features that should be found in the facility being leased and in the lease itself.

  Whether the franchise involves a retail operation, or a production process, the operating manual should include details about such things as:

  - Minimum areas, height, heating, insulation, etc., required for each function – from parking, to retail, display, office space, general storage, safe storage, manufacturing space, loading docks, etc.;
  - Minimum electrical power, water, etc., required for each function;
  - Minimum zoning and permit requirements;
  - Minimum lease duration and renewal options;
  - Itemization of real estate and business taxes, and who is liable for them.

- **Architectural and interior design plans**
  Whether the franchise is located in a pre-existing rented facility or in a built-to-suit one, the operating manual usually dictates the design, or at least contains the criteria which must be used in designing, building and outfitting the facility.

Most established franchisors will have standard plans and specifications which can be adopted to any suitable site. If needed, the franchisor will prepare an amended plan or rely on the franchisee to find a local architect to help with the alterations. In most cases, the franchisor will be the one to pay the architect's fees. Established franchisors also tend to offer a complete plan preparation and shopfitting service, or at least assistance in which shopfitter to use.

- **Communication and computer systems**

  Because of the increasing importance of communication and computers, franchisors are now becoming involved in specifying what phone, fax, computer system, hardware and software should be used by the franchisee. The aim here is to maximize the system compatibility between the franchisor and the various franchisees, wherever they may be located.

- **Security and insurance policies**

  This is another area in which franchisors have had to become involved over the last decade. The operating manual should establish desired criteria and minimum requirements for alarms, locks, security systems and insurance policies.

- **Production, equipment selection, installation and testing**

  Sometimes, when the franchise involves a production process, the franchisor is directly involved in the design of the process, including selection and purchase/lease of equipment, installation, testing and training of the production and supervisory staff. In these cases, the operating manual should include the following sections:

  - Advice and assistance to the franchisee in the selection of the appropriate equipment from the best sources at the best prices. For franchises which involve specialized production processes, the operating manual usually contains a complete list of the required equipment (with brand names, model numbers, other specifications and suggested, or even mandatory sources).
  - Basic information and company approved criteria on installation, testing, and maintenance (especially preventive maintenance).
  - It is not unusual to include precise information on equipment operating settings for best results and information on expected productivity, learning curve and operating costs. These are in fact some of the most important "trade secrets" that a franchisor may provide to a franchisee.

Start-up training of personnel

The operating manual does not contain any training material as such, but it should include precise information on:

- Who will receive training in the franchise (from the franchisee down);
- What training is required for each;
- Who will provide training, when and where (for example, the franchisee may be required to undergo a period of training at an existing franchisor facility in addition to formal training in management, etc.; senior franchisee staff may be trained on-site by a franchisor's certified trainer; and junior staff may then be trained by already trained franchisee staff);
- What the criteria for training certification will be.

Training is the franchisor's guarantee that the franchise will actually be operated according to the letter and the spirit of the franchise. Allowing the franchisee to use untrained staff is asking for trouble. At the very least, there will be a loss of uniformity, and eventually there will be a loss of quality, client confidence, and value of the franchise. The manual should clearly state that use of improperly trained, or uncertified staff is a severe breach of the franchise agreement.

Management systems

One of the franchisor's most important contributions is generally related to the guidance in setting up the business management systems. At a minimum, these would include the following:

- Setting up the bank accounts, bookkeeping system and other financial control procedures;
- Setting up the quantity and quality control systems;
- Setting up supply agreements for the new franchise. This includes identifying and qualifying suppliers (local or otherwise) for all the franchisee's needs including raw material, supplies, spare parts, maintenance services, packaging material, etc., as well as negotiating group purchasing, volume discounts and shipping, and insurance agreements;
- Establishing the pricing and credit policies for the franchise (including profit margins, quantity discounts, prices relative to main competitors, credit terms, credit qualification criteria, credit limits, cost of credit, etc.);
- Setting up the local advertising and public relations contracts;
- Arranging for the translation and local production of letterhead, business cards and brochures.

Grand opening related activities

These are the procedures directly related to the grand opening. Many franchisors like to turn the opening of a new franchise into an event which draws the attention of dignitaries, the local media, as well as prospective clients and local suppliers. If at all possible, the franchisor should be present for the occasion.

Some of the opening related activities are:

- Start-up inventory (what to buy, where, at what price and conditions, in what volumes)
- Signage, banners, window decals, fliers, etc.
- Grand opening promotions, press releases, etc.

The Second Binder: Operating Procedures

This is the heart of the operating manual, where the franchisor explains to the franchisee (and to each specific employee) every major task that has to be performed, from regular, routine tasks such as the morning opening or recording of sales, to highly specialized production and quality control tasks, as well as emergencies and special procedures.

In addition to an exhaustive list of tasks, this binder also contains precise instructions on how to perform each major task, why it has to be done, when should it be done, by whom, with what results, and what may/should happen if the task is not performed, or not performed to standards. For example, the operating procedures for shipping prefabricated housing components to distant clients may include establishing a packing list, having the shipment checked by two additional individuals, one of which must be at the supervisory level. Each component may then have to be tagged and photographed, individually wrapped, crated and hand stuffed into the container.

Again, it must be stressed that the operating manual you provide to your first franchisee will probably deal only with the very major tasks and procedures. However, as you gain more franchisees, and more franchising experience, it should be reflected in the operating manual to the point of covering everything one needs to run a profitable franchise.

The operating procedures binder is expected to contain such sections as:

- Hours of operations, opening and closing procedures, etc.;
- Procedures on handling money (cash register operations, sales records, petty cash, etc.); payment procedures (cheques, credits, returns, etc.);
- How to deal with clients (depending on the franchise, this can be very detailed, and important);

- After-sales services (another key area where a franchise distinguishes itself from the competition);
- Purchasing from suppliers;
- Quality control (product, service, health and safety standards);
- How to calculate and pay fees and royalties;
- Reporting procedures (profit and loss statement, balance sheet, etc.);
- Advertising and promotion planning, budgeting, approval and reporting procedures.

The Third Binder: Human Resources

The third binder deals mainly with human resources management issues, such as:

- Company employment policies (including non-discrimination, harassment, etc.)
- Job descriptions
- Payroll scales (including overtime scales)
- Performance incentives (including performance criteria)
- Staffing responsibilities (how many, what positions, how to select, etc.)
- Work scheduling procedures
- Uniforms or dress code

In addition to the above, the binder usually includes reference to such additional elements as:

- Provisions for reimbursements of expenses, vacations, benefits
- Non-disclosure clauses
- Probationary periods and evaluation criteria
- Arrangements in the event of illness, disability, or death
- Disciplinary and staff firing procedures
- Grounds for termination, including employer and employee obligations upon departure
- Grievance procedures and other union related issues

The Fourth Binder: Standard Forms

To standardize procedures across franchises, it is a good idea to develop standard forms which franchisees and their employees can use to perform, or to track the performance of all major tasks. For example, one would expect the fourth binder to include such standard forms as:

- Application Forms
- Employment Contract Forms
- Trade secret non-disclosure forms
- Time sheets
- Sales and expenditures reports
- Payroll forms, etc.

Conclusion

At this point, you should have a fully developed licensing/franchising agreement template, and a solid first version of your franchise operating manual. You can now, finally, begin to focus on expanding overseas through licensing or franchising. In the next chapter we will deal with how to sell licenses and franchises overseas in an effective and orderly way.

10. Selling Licenses and Franchises Overseas

Remember that, while the best prospective client for a license is probably a company in your line of business with lots of experience and looking for a competitive edge, the best prospective franchisee is likely to be a highly motivated individual, but also possibly one with little or no direct knowledge or experience in your line of business. If the person is any good, you will probably be asked lots of questions which you should be prepared to answer – a significant reason why you should develop a good franchise information package.

In all likelihood, it may also be somebody who needs some form of financing to pay your initial fees and cover the necessary investments required to get started.

There are several agents and companies specialized in selling licenses and franchises. Some cover North America, some operate world wide, some may even focus exclusively on your intended market. If you are inexperienced, or under funded, this may be an interesting option.

In this chapter we will review the basic steps required to identify desirable licensees and franchisees and go through the selection process. We will also review some of the basic options you can develop to help good franchisees finance their business.

Financing Overseas Franchises

As a start-up franchisor yourself, you may be limited in what you can do in the overseas financing area. Although there are no rules that say you have to help your franchisees set up their financing, doing so may help you achieve several very desirable results.

First, you will broaden the field of franchisees you can choose from. You will not be restricted to those who have the cash on hand to close the deal, or who have the experience and knowledge to get the necessary financing from other sources.

Second, you may in fact increase the immediate value of your franchise package, since you will be offering access to financing, a very valuable "initial" contribution.

Third, by helping franchisees gain access to less expensive sources of financing, you will be contributing to their success and increase the value of future franchise deals.

Fourth, you may discover that in many countries, those who can afford the initial investment required to purchase your franchise have already achieved a social position which precludes them from being involved, full time and exclusively, in the management and operation of the

franchise. By providing access to financing, you create an opportunity for people who are willing, and able to devote one hundred and ten percent of their time and energy to the success of the business.

How can you help?

Although your resources may be limited, there are several ways you can help prospective franchisees finance the deal. Your reputation is important to help a franchisee obtain financing.

Franchisees have an advantage over independent business owners because the franchisor's reputation and record of success, as well as the fact that the franchisee will be assisted by the franchisor at every step of the way greatly reduces the risk of failure. All these factors can go a long way in convincing the bank to extend the necessary credit.

By approaching local banks in the target market, before you start seeking franchisees, you will be able to have a good understanding of what the banks will require from the prospective franchisee. You can then use this information as a selection criteria. By bringing a prospective franchisee to meet a banker who is already knowledgeable about the project and who has basically pre-approved the deal you enhance considerably your image vis à vis the franchisee.

If the franchise involves a sizeable investment in equipment, you should again approach the suppliers and the potential leasing companies ahead of time and discuss the project with them. If the equipment is Canadian, you may seek assistance from EDC. This is again likely to facilitate things considerably.

When dealing with a good source of raw materials, or a low manufacturing cost country, a good way to strengthen the position of your franchisee is by signing a long-term contract under which that franchisee will supply you with a product for which you have a profitable market.

Finally, if your cash-flow is not too tight, you may consider reinvesting a portion of the start-up fees in the franchise. This way, you will benefit not only as a franchisor, but also as a partner.

The Promotional Package

Once people express an interest in becoming franchisees, you should be in a position to hand them your "franchise promotional package".

The package should do two things:

- Present the business concept, and
- Present the franchising opportunity

These are quite different issues. The first involves a presentation of the business, its products and services, the needs they fulfill, the market, competitive advantages, etc.

The second is a presentation of the franchise as a business opportunity: investment required, profitability expectations, growth potential, etc.

The promotional package should draw, as much as possible, on the verifiable results obtained by the franchisor in the pilot and by already existing franchisees. At the very least, the package should contain a well designed, professional looking brochure (although one should refrain from having a brochure which looks too "slick").

Good colour brochures are expensive to design and very expensive to produce, especially if you only need a small number of copies. This is why more and more franchisors are opting for a World Wide Web site solution (see below).

The second component of the promotional package should probably be a short (15 minutes or so) video showing the franchisor's operations, the pilot, and any existing franchises. The video should be of good quality, but not necessarily of broadcast quality. In addition, the video should feature the company products and services, as well as testimonials from satisfied customers.

Increasingly, a Web site is the third leg of the promotional package. A good Web site can include a copy of the brochure and even clips from the video. The great advantage of a Web site is that, even if it costs about the same to design as a regular four color brochure (and it generally costs less), it can be updated at any time at little or no cost, there are no reproduction costs, nor any mailing costs.

The disadvantage of the Web site approach, is that it only works in those countries where Internet is easily available.

Needless to say, if at all possible, you should have all your promotional material adapted (not simply translated) to the language and culture of the country you are targeting.

In addition to the brochure, the video and the Web site, the promotional package may have to include a document known as the "Franchise prospectus".

Selection Criteria must be Clear and Appropriate

Before starting to actively promote your license or franchise overseas and recruit licensees or franchisees, you should develop a clear set of selection criteria appropriate to your business and the country you are going to prospect. What kind of individual do you want? With what kind of background, resources, motivation, etc.?

Licensee selection criteria

Licensee selection criteria are fairly straightforward. You want to choose licensees who will generate the largest possible revenue, this means that you want to approach the largest existing company who could benefit from using your license. In addition, you want to be sure that the prospective licensee is financially sound, honest and trustworthy.

Franchisee selection criteria

Selection criteria are likely to be very different, depending on whether you are looking for licensees or franchisees.

Criteria for the selection of franchisees are generally more complex and include such things as:

- Does this person have the right age, health, education, past experience profile?
- Why is this person interested in becoming your franchisee?
- Has this person been a franchisee, or self employed before? With what results?
- Is this person honest, ambitious, committed, available?
- Is this the type of person who will follow instructions?
- Does the prospective franchisee have sufficient financial resources?
- Does the person have proven people, sales and management skills?

Once you have determined what are the most important characteristics that your overseas franchisees should have, you still have a question: how will you be able to establish that the candidate has what you want in the context of the culture, society and economy of the target market?

You cannot expect foreigners to behave like North Americans, they may be reluctant to argue, criticize, or even contradict you. They may not feel comfortable even looking at you straight in the eyes. All of which does not mean that they would not make excellent franchisees for that particular country.

Before you start looking for franchisees to interview, make sure that you discuss your selection criteria with a few people who are very familiar with the country, its society, its culture and its housing industry. They should be able to tell you how to translate your criteria into meaningful questions and answers for that particular situation.

One of the worst mistakes that you can make at this point is to look for a Canadian expatriate or a foreigner who has lived in North America just because you feel more comfortable dealing with them than with the locals.

Finding Licensees

Because you know who you would like to have as a licensee, contacting prospective licensees should not be very difficult. The Canadian Embassy's Trade Attaché should be able to provide you with the names, addresses and contacts of the five top companies in your line of business in the country. Failing that, you should contact the local chamber of commerce, or use a Canadian expatriate for referrals.

You should not negotiate a license agreement, especially an exclusive one with a company, just because they contacted you first, unless you are certain that they meet all your requirements. More often than not, the company which contacted you is not one of the large, established companies you would want as your licensee.

Finding Franchisees

There are several methods that one can use to find potential franchisees. Most methods, such as advertisements in major newspapers or business magazines, are fairly expensive, and tend to generate too many leads. This approach is acceptable when you are trying to establish a large number of franchises at one time, but is probably inappropriate in a situation such as yours in which you are looking for one, or at most a few, good franchisees.

As a start-up franchisor, your best approach is through referrals from local contacts, including current clients already known to you in the country, the embassy staff, the local chamber of commerce, etc.

If you can spare the time and the cost, the best option is to participate in a major, specialized trade show in the target market.

You generally have a choice between participating in franchising trade shows and housing oriented trade shows. You will probably feel more comfortable trying the housing trade show first.

One new method, still untested, involves advertising your franchise opportunity on one of the Internet specialized services.

Selecting the Best Prospect

The selection process of licensees and franchisees is completely different.

In the case of a licensee, you are looking for somebody established, who will make the greatest possible use of the patent, trademark or other intellectual property you may be licensing. You are looking for capacity to use, ability to pay and integrity.

In all likelihood, you will start your selection with fewer than five candidates, and once you have set aside those you would be reluctant to do business with, because of integrity concerns, or because you have reservations about their financial stability, your choice should be dictated by the capacity to use.

In the case of a franchisee, the selection process is somewhat more complicated.

The first step is to eliminate candidates who do not have the minimum qualifications. Depending on how you advertised the franchise opportunity, this can be quite a task, as you may receive many requests from unqualified prospects.

The second step is to rate all the remaining candidates according to each of the main selection criteria. The best way to do that is to establish a kind of score sheet. For example, less than three years of relevant experience, zero points, three to five years, two points, and so on.

The third step is to identify potentially interesting franchisees who have failed to provide some key information such as financial resources, availability, etc., and ask them to provide additional information. This step is often overlooked if there is a good group of well qualified candidates already.

The fourth step is to narrow the field to the top four or five leading candidates and arrange for an interview. The initial interview (for which you should estimate a minimum of one hour per candidate) may be held at your hotel. It is a good idea to be accompanied by somebody who is thoroughly familiar with the country, the language and the society. This is where a good consultant can come very handy. It is also a good idea to have a translator at hand. If it is part of the country's culture, do not forget to offer a coffee, tea or whatever is the custom.

The fifth step is crucial. Unfortunately, this is where most start-up franchisors falter, and come to regret it. You should require the top three or four franchisee candidates to provide you with detailed evidence and references, and you should have these thoroughly checked. If you get a diploma, don't take it at face value, check back with the institution who issued it. In most countries, it is fairly easy to check an individual's police record, and you should absolutely do it. Character and professional references are important, and they should also be checked, if at all possible, in person. So the individual claims to have worked for a given company. Does the company exist? Did the person actually work there? At the given position? Or is this a bogus reference provided by a relative or a friend? You better find it out now rather than later.

By now, you should be down to no more than two or three candidates, at most. At this point you want to get to know the candidates to a much greater degree. One approach often used at this point is to spend a full day with the candidate. Go visit prospective clients and suppliers, and see how the individual behaves. Does the person seem to feel comfortable, or relates easily? Does the individual have a good judgment? If at all possible, try to meet the immediate family (although this may not be necessary, or even possible in some societies). Are they supportive? Will they be able to contribute?

Once you have gone through all of the above steps, and only then, will you be in a position to begin discussing the franchise agreement.

Negotiating the Agreement

A solid franchise agreement template is one of the key ingredients of long-term success. Your franchise agreement should be ready by now, prepared with care, well ahead of time.

Whoever is going to negotiate with the prospective franchisee should know, in-depth, what every items means, why it was included, and what is or is not negotiable. And be prepared to explain these items to the franchisee and to the legal and financial advisors. A well-informed negotiator inspires confidence, allays suspicions and maximizes the chances of the deal going through with a minimum of wear and tear.

It is important to always keep in mind that for the franchise to flourish, both you and the franchisee must make money and be happy. You are partners, the franchisee is not your indentured slave!

Remember, however, that what you give away to one franchisee, for whatever reason, you may not be able to withhold from others, even if less deserving ones. One thing is for sure: never, ever negotiate on the issues pertaining to your core intellectual property.

Remember also that you cannot enter a market, set up agents and distributors, develop clients and then expect to backtrack and impose franchise agreements.

Congratulations

This concludes the guide "Growing Overseas Through Licensing and Franchising". If you have covered all the chapters in this guide, you should now be familiar with the concepts of intellectual property, the definitions of licensing and franchising and have a good grasp of what it takes to be ready to license and franchise overseas. You will undoubtedly have assessed your franchise rating and gained an understanding of the work involved in preparing the business plan, the template agreement and the operating manual. Hopefully, you will also have found some of the recommendations concerning the best ways to sell licenses and franchises overseas to be useful.

Maybe it is time you put all this knowledge into practice.

GOOD LUCK!

11. References

Intellectual Property

Canadian Intellectual Property Office – Industry Canada

The Canadian Intellectual Property Office (CIPO) is the federal agency responsible for granting all intellectual property rights including patents, copyrights, trademarks and industrial designs.

Canadian Intellectual Property Office
50 Victoria Street, 2nd Floor
Place du Portage, Phase I
Hull, PQ K1A 0C9
Tel.: (819) 997-1936
Fax: (819) 953-7620
E-mail: cipo.contact@ic.gc.ca
Internet: http://info.ic.gc.ca

Licensing

Canadian Industrial Innovation Centre

The Canadian Industrial Innovation Centre (CIIC) is an organization dedicated to assisting inventors, entrepreneurs and innovative companies. The CIIC is an independent, not-for-profit corporation partially funded by Industry Canada.

The CIIC offers a wide range of consulting services to those with ideas for products, services or processes. One of the services of interest to the readers of this guide is the promotion of international technologies available for license.

The Inventor's Assistance Program – Invention Assessment.
Under this program, the CIIC provides preliminary and inexpensive evaluations of all types of inventions, from simple household products to advanced technologies.

Another service you may use through the CIIC is The World Bank of Licensable Technology (WBLT) database. It is a global database consisting solely of qualified technologies ready for transfer through license (in or out), joint venture, co-manufacturing, co-marketing agreements or sale. You may list your product or process on the database to commercialize your technologies in the international marketplace.

Canadian Industrial Innovation Centre
156 Columbia Street West
Waterloo, ON N2L 3L3
Tel.: (519) 885-5870 or 1-800-265-4559
Fax: (519) 885-5729
E-mail: hvogel@innovationcentre.ca
Internet: http://www.innovationcentre.ca

Franchising

Canadian Franchise Association

The Canadian Franchise Association represents franchisors in Canada. It maintains contact with foreign franchise associations, organizes seminars on franchising in specific countries, publishes a bi-monthly newsletter titled "The Franchise Voice". You have to be a member in order to take advantage of their services. Affiliate members, such as legal, consulting and accounting firms can be of assistance to companies considering international expansion through franchising.

National contact:

Canadian Franchise Association
Building 12
Suite 201, 5045 Orbitor Drive
Mississauga, ON L4W 4Y4
Tel.: (905) 625-2896 or 1-800-665-4232
Fax:(905) 625-9076

Regional contacts:

Alberta Franchisors Institute
Suite 440, 10816 Macleod Trail South
P.O. Box 121
Calgary, AB T2J 5N8
Tel.: (403) 278-1919
Fax: (403) 278-4655

Regional contacts continued:

Association québécoise de la franchise
Suite 450, 2550 Daniel-Johnson Boulevard
Laval, PQ H7T 2L1
Tel.: (514) 973-8459
Fax: (514) 973-9015

Pacific Franchise Association
Suite 523, 409 Granville Street
Vancouver, BC V6C 1T2
Tel.: (604) 669-3177
Fax: (604) 669-5343

International Franchise Association

The International Franchise Association (IFA) is an organization, based in the U.S., representing business franchising. Membership consists of franchisees, franchisors and suppliers. The IFA does lobbying on behalf of its members, provides educational programs to enhance franchise growth and does networking.

International Franchise Association
1350 New York Avenue, N. W., Suite 900
Washington, D.C. 20005
Tel.: (202) 628-8000
Fax: (202) 628-0812
Fax-on-demand: (202) 628-3432
Publications: 1-800-543-1038
E-mail: franchise@msn.com or RXNS90C@prodigy.com
Internet: http://www.entremkt.com/ifa

Distribution Services Directorate – Industry Canada

The Distribution Services Directorate of Industry Canada monitors trends and developments in franchising and maintains contact with franchisors, associations and professionals in Canada and selected countries. They publish a booklet titled "International Franchising: Information Sources" which includes international sources of information on franchising, foreign franchise associations, references to publications, exhibitions and market surveys. To obtain a copy, contact:

Service Industries and Capital Projects Branch
Industry Canada
235 Queen Street
Ottawa, ON K1A 0H5
Fax: (613) 952-9054
E-mail: sicpmail@ic.gc.ca
Internet: http://strategis.ic.gc.ca

Canadian Business Service Centres

Canadian Business Service Centres (CBSCs) are the result of cooperative efforts between the various levels of government and the private sector. CBSCs are intended to improve access to information of interest to exporters. CBSCs offer access to databases on government programs and services, links to external databases, publications, directories, guides and manuals. For more information, contact the CBSC nearest you:

Canada/NWT Business Service Centre
3rd floor Northern United Place
5004-54th Street
Yellowknife, NT X1A 2L9
Phone: (403) 873-7958 or
1-800-661-0786
Fax: (403) 873-0101
Info-Fax: (403) 873-0575
Info-Fax: 1-800-661-0825
E-mail: yel@cbsc.ic.gc.ca

Canada/British Columbia
Business Service Centre
601 West Cordova Street
Vancouver, BC V6B 1G1
Tel.: (604) 775-5525 or
1-800-667-2272
Fax: (604) 775-5520
Fax Back: (604) 775-5515

Canada/Alberta
Business Service Centre
Canada Place, Suite 122
9700 Jasper Avenue
Edmonton, AB T5J 4H7
Tel.: (403) 495-6800 or
1-800-563-9926
Fax: (403) 495-7725

The Business Link (Edmonton)
Suite 100, Boardwalk Building
10237 – 104 Street
Edmonton, Alberta T5J 1B1
Phone: (403) 422-7722
(Information Telephone)
(403) 422-7788 (Centre Switchboard)
Toll Free: 1-800-272-9675
Fax: (403) 422-0040 (Information Area)
(403) 422-0055 (Front Desk)
Facts Line: (403) 427-7971 or
1-800-563-9926
E-mail: bscedm@edmcbsc.ic.gc.ca

Canada/Saskatchewan
Business Service Centre
122-3rd Avenue North
Saskatoon, SK S7K 2H6
Tel.: (306) 956-2323 or 1-800-667-4374
Fax: (306) 956-2328
Fax Back: (306) 956-2310 or
1-800-667-9433

Canada/Manitoba
Business Service Centre
330 Portage Avenue, 8th Floor
P.O. Box 2609
Winnipeg, MB R3C 4B3
Tel.: (204) 984-2272 or
1-800-665-2019
Fax: (204) 983-3852
Fax Back: (204) 984-5527 or
1-800-665-9386

Canada/Ontario
Business Service Centre
Toronto, ON
(Telephone service only)
Tel.: (416) 954-4636 or
1-800-567-2345
Fax: (416) 954-8597
Fax Back: (416) 954-8555 or
1-800-240-4192
E-mail: cobcc@cbsc.ic.gc.ca

Info Entrepreneurs
5 Place Ville-Marie
Plaza Level, Suite 12500
Montreal, QC H3B 4Y2
Tel.: (514) 496-4636 or
1-800-322-4636
Fax: (514) 496-5934
Fax Back: (514) 496-4010 or
1-800-322-4010

Canada/New Brunswick
Business Service Centre
570 Queen Street
Fredericton, NB E3B 6Z6
Tel.: (506) 444-6140 or
1-800-668-1010
Fax: (506) 444-6172
Fax Back: (508) 444-6169

Canada/Prince Edward Island
Business Service Centre
75 Fitzroy Street
P.O. Box 40
Charlottetown, PEI C1A 7K2
Tel.: (902) 368-0771 or 1-800-668-1010
Fax: (902) 566-7377
Fax Back: (902) 368-0776 or
1-800-401-3201

Canada/Nova Scotia
Business Service Centre
1575 Brunswick Street
Halifax, NS B3J 2G1
Tel.: (902) 426-8604 or 1-800-668-1010
Fax: (902) 426-6530
Fax Back: (902) 426-3201 or
1-800-401-3201
E-mail: halifax@cbsc.ic.gc.ca

Canada/Newfoundland
Business Service Centre
90 O'Leary Avenue
P.O. Box 8687
St. John's, NF A1B 3T1
Tel.: (709) 772-6022 or 1-800-668-1010
Fax: (709) 772-6090
Fax Back: (709) 772-6030

Expanding Overseas Through Licensing and Franchising – References

The Trade Commissioners Service

The Trade Commissioner Service should be the cornerstone of your export thrust.

The Department of Foreign Affairs and International Trade (DFAIT) operates an international network of 128 Trade Offices staffed by Trade Commissioners located at Canadian Embassies and Consulates around the world. This network extends across Canada where it operates from International Trade Centers.

Trade Commissioners can offer a variety of services including:

- Information on potential target markets
- Detailed information on a variety of aspects of your target market, from trade statistics to politics and culture
- Help in understanding local rules and regulations, including duties, taxes, business practices, etc.
- Help in identifying and negotiating with potential local agents
- Help in developing the product, distribution, financing, etc., sections of your export plan
- Help in reviewing your export plan
- Information on trade fairs and missions (both outgoing and incoming)
- Help in identifying clients and getting an introduction
- Help in finding credit information on prospective clients
- Help in getting you and keeping you out of trouble when necessary

Trade Commissioners are busy professionals, you should start by contacting the appropriate DFAIT geographical section (see below). They will refer the request to the official responsible for your industry sector at the appropriate foreign post.

Africa and Middle East
Tel.: (613) 944-6591
Fax: (613) 944-7431

Asia and Pacific
Tel.: (613) 992-6807
Fax: (613) 944-1604

South Asia
Tel.: (613) 996-0910
Fax: (613) 996-5897

China
Tel.: (613) 995-7575
Fax: (613) 943-1068

Europe
Tel.: (613) 996-6835
Fax: (613) 995-8756

Northern Europe
Tel.: (613) 995-9402
Fax: (613) 995-6319

Eastern Europe
Tel.: (613) 992-7291
Fax: (613)995-1277

Western Europe
Tel.: (613) 992-0871
Fax: (613) 995-5772

Southern Europe
Tel.: (613) 992-2099
Fax: (613) 995-8783

European Union
Tel.: (613) 995-6115
Fax: (613) 944-0034

Korea and East Asia
Tel.: (613)996-1186
Fax: (613) 996-1248

Japan
Tel.: (613) 995-8985
Fax: (613) 943-8286

Latin America and Caribbean
Tel.: (613) 996-4198
Fax: (613) 943-8806

Mexico
Tel.: (613) 996-5611
Fax: (613) 996-6142

East United States of America
Tel.: (613) 944-9477
Fax: (613) 944-9119

West United States of America
Tel.: (613) 944-5912
Fax: (613) 944-9119

U.S. officer responsible for construction, manufactured wood products and building products
Tel.: (613) 944-9471

For information about specific Trade Offices, consult the Directory of the Canadian Trade Commission Service, available from:
InfoCentre: 1-800 267-8376
Department of Foreign Affairs and International Trade (DFAIT)

You may also contact the nearest International Trade Center:

Newfoundland ITC
P.O. Box 8950 Atlantic Place
215 Water St., Suite 504
St. John's, NF A1B 3R9
Tel.: (709) 772-5511
Fax: (709) 772-2373

Prince Edward Island ITC
P.O. Box 1115
Confederation Court Mall
134 Kent St., Suite 400
Charlottetown, PEI C1A 7M8
Tel.: (902) 566-7443
Fax: (902) 566-7450

Nova Scotia ITC
P.O. Box 940, Station M
1801 Hollis St.
Halifax, NS B3J 2V9
Tel.: (902) 426-7540
Fax: (902) 426-2624

New Brunswick ITC
P.O. Box 1210, Assumption Place
1045 Main St., Unit 103
Moncton, NB E1C 1H1
Tel.: (506) 851-6452
Fax: (506) 851-6429

Quebec ITC
5, Place Ville-Marie, Suite 800
Montreal, QC H3B 2G2
Tel.: (514) 283-6328
Fax: (514) 283-8794

Ontario ITC
Dominion Public Building
One Front Street West, 4th Floor
Toronto, ON M5J 1A4
Tel.: (416) 973-5053
Fax: (416) 973-8161

Manitoba ITC
P.O. Box 981
330 Portage Avenue, 8th Floor
Winnipeg, MB R3C 2V2
Tel.: (204) 983-4540
Fax: (204) 983-3182

Saskatchewan ITC
The S.J. Cohen Building
119-4th Avenue South
Saskatoon, SK S7K 5X2
Tel.: (306) 975-5315
Fax: (306) 975-5334

Saskatchewan ITC – Regina Office
1919 Saskatchewan Drive, 6th Floor
Regina, SK S4P 3V7
Tel.: (306) 780-6325
Fax: (306) 780-6679

Alberta ITC
Canada Place, Room 540
9700 Jasper Avenue
Edmonton, AB T5J 4C3
Tel.: (403) 495-2944
Fax: (403) 495-4507

Alberta ITC – Calgary Office
510-5th Street South West, Suite 1100
Calgary, AB T2P 3S2
Tel.: (403) 292-6660
Fax: (403) 292-4578

British Columbia ITC
300 West Georgia Street, Suite 2000
Vancouver, BC V6B 6E1
Tel.: (604) 666-0434
Fax: (604) 666-0954

Target Market Research – PEMD

DFAIT's Program for Export Market Development (PEMD) is the best known export support program for small and medium-sized companies. PEMD is a repayable contribution program which helps export-ready small and medium-sized companies develop their overseas business by covering half the costs of eligible expenses, including target market research. Applications are fairly straightforward, but approval must be obtained in advance.

For additional information, contact the:
Program for Export Market Development (PEMD), Department of Foreign Affairs and International Trade (DFAIT), or the International Trade Centres/Trade Commissioners Service

Directory of the Canadian Trade Commission Service – DFAIT
CanadExport – DFAIT

The Directory of the Canadian Trade Commission Service is a must for every exporter. This directory contains a complete, up-to-date list of all International Commerce Centres in every province in Canada, and Trade Commissioners and Honorary Consuls abroad.

Directory of the Canadian Trade Commission Service, 1995, 64 pp., available in English and French, at no cost.

CanadExport is a monthly newsletter for exporters published by the Department of Foreign Affairs and International Trade. To receive the newsletter it is necessary to subscribe. The newsletter is available in English and French, at no cost. The publications may be obtained by calling:

InfoCentre: 1-800-267-8376
Department of Foreign Affairs and International Trade (DFAIT)

Selling Licenses and Franchises Overseas – References

INFO Franchise News Inc.

INFO, which stands for International New Franchise Opportunities, compiles the Franchise Annual Directory and publishes the INFO Franchise Newsletter. The directory includes about 5,000 listings of U.S., Canadian and non-North American franchisors. It also includes a handbook section detailing how to investigate the franchisor, the franchisee, and the product/service being considered

The Newsletter is a monthly publication introducing new franchisors as well as monitoring trends in the franchise world. It also deals with litigation involving franchising and legislation affecting franchising. As of the printing of this guide, the subscription for 12 issues is US $96.00.

INFO Franchise News Inc.
9 Duke Street
P.O. Box 670
St. Catharines, ON L2R 6W8
Tel.: (905) 688-2665
Fax: (905) 688-7728
E-mail: infopress@infonews.com
Internet: http://www.infonews.com

Financing, Insurance and Loan Guarantees – EDC

The Export Development Corporation's (EDC) overall mandate is to provide financing, insurance and loan guarantees to Canadian exporters and their foreign customers.

As a small or medium-sized would-be exporter with little or no experience, you will love EDC's fast, simple and straightforward service for "Emerging Exporters". With a toll-free call you can talk to one of the Emerging Exporters Team members who will take your information over the phone, and, if you qualify, approve your line of credit, financing and your export insurance policy right away.

Export Development Corporation (EDC)
Emerging Exporters Team
151 O'Connor Street
Ottawa, ON K1A 1K3

Tel.: 1-800-850-9626
Fax: (613) 598-6871
E-mail: export@edc4.edc.ca
Internet: http://www.edc.ca